

UNITED STATES-CANADIAN AUTOMOBILE AGREEMENT

1637-H

HEARINGS BEFORE THE COMMITTEE ON FINANCE UNITED STATES SENATE EIGHTY-NINTH CONGRESS

FIRST SESSION

ON

H.R. 9042

AN ACT TO PROVIDE FOR THE IMPLEMENTATION OF THE
AGREEMENT CONCERNING AUTOMOTIVE PRODUCTS BE-
TWEEN THE GOVERNMENT OF THE UNITED STATES OF
AMERICA AND THE GOVERNMENT OF CANADA, AND FOR
OTHER PURPOSES

SEPTEMBER 14, 15, 16, 20, AND 21, 1966

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UNITED STATES-CANADA AUTOMOBILE AGREEMENT

TUESDAY, SEPTEMBER 14, 1965

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room 2221, New Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd (presiding), Smathers, Douglas, Gore, Talmadge, Hartke, Carlson, Curtis, and Morton.

Also present: Elizabeth B. Springer, chief clerk, and Thomas Vail, professional staff member.

The CHAIRMAN. The committee will come to order.

The purpose of this hearing is to receive testimony from both the administration and the general public on H.R. 9042, a bill which was introduced at the request of the administration to provide for the implementation of the agreement concerning automotive products between the Government of the United States and the Government of Canada.

I place in the record a copy of the bill and a copy of data relating to the bill compiled by the staff.

(H.R. 9042 and data referred to follow:)

[H.R. 9042, 89th Cong., 1st sess.]

AN ACT To provide for the implementation of the Agreement Concerning Automotive Products Between the Government of the United States of America and the Government of Canada, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE I—SHORT TITLE AND PURPOSES

SHORT TITLE

SECTION 101. This Act may be cited as the "Automotive Products Trade Act of 1965".

PURPOSES

Sec. 102. The purposes of this Act are—

(1) to provide for the implementation of the Agreement Concerning Automotive Products Between the Government of the United States of America and the Government of Canada signed on January 16, 1965 (hereinafter referred to as the "Agreement"), in order to strengthen the economic relations and expand trade in automotive products between the United States and Canada; and

(2) to authorize the implementation of such other international agreements providing for the mutual reduction or elimination of duties applicable to automotive products as the Government of the United States may hereafter enter into.

TITLE II—BASIC AUTHORITIES

IMPLEMENTATION OF THE AGREEMENT

SEC. 201. (a) The President is authorized to proclaim the modifications of the Tariff Schedules of the United States provided for in title IV of this Act.

(b) At any time after the issuance of the proclamation authorized by subsection (a), the President is authorized to proclaim further modifications of the Tariff Schedules of the United States to provide for the duty-free treatment of any Canadian article which is original motor-vehicle equipment (as defined by such Schedules as modified pursuant to subsection (a)) if he determines that the importation of such article is actually or potentially of commercial significance and that such duty-free treatment is required to carry out the Agreement.

IMPLEMENTATION OF OTHER AGREEMENTS

SEC. 202. (a) Whenever, after determining that such an agreement will afford mutual trade benefits, the President enters into an agreement with the government of a country providing for the mutual elimination of the duties applicable to products of their respective countries which are motor vehicles and fabricated components intended for use as original equipment in the manufacture of such vehicles, the President (in accordance with subsection (d)) is authorized to proclaim such modifications of the Tariff Schedules of the United States as he determines to be required to carry out such agreement.

(b) Whenever, after having entered into an agreement with the government of a country providing for the mutual elimination of the duties applicable to products described in subsection (a), the President, after determining that such further agreement will afford mutual trade benefits, enters into a further agreement with such government providing for the mutual reduction or elimination of the duties applicable to automotive products other than motor vehicles and fabricated components intended for use as original equipment in the manufacture of such vehicles, the President (in accordance with subsection (d)) is authorized to proclaim such modifications of the Tariff Schedules of the United States as he determines to be required to carry out such further agreement.

(c) Before the President enters into the negotiation of an agreement referred to in subsection (a) or (b), he shall—

(1) seek the advice of the Tariff Commission as to the probable economic effect of the reduction or elimination of duties on industries producing articles like or directly competitive with those which may be covered by such agreement;

(2) give reasonable public notice of his intention to negotiate such agreement (which notice shall be published in the Federal Register) in order that any interested person may have an opportunity to present his views to such agency as the President shall designate, under such rules and regulations as the President may prescribe; and

(3) seek information and advice with respect to such agreement from the Departments of Commerce, Labor, State, and the Treasury, and from such other sources as he may deem appropriate.

(d) (1) The President shall transmit to each House of the Congress a copy of each agreement referred to in subsection (a) or (b). The delivery to both Houses shall be on the same day and shall be made to each House while it is in session.

(2) The President is authorized to issue any proclamation to carry out any such agreement—

(A) only after the expiration of the 60-day period following the date of delivery,

(B) only if, between the date of delivery and the expiration of such 60-day period, the Congress has not adopted a concurrent resolution stating in substance that the Senate and House of Representatives disapprove of the agreement, and

(C) in the case of any agreement referred to in subsection (b) with any country, only if there is in effect a proclamation implementing an agreement with such country applicable to products described in subsection (a).

(3) For purposes of paragraph (2), in the computation of the 60-day period there shall be excluded the days on which either House is not in session because of adjournment of more than 3 days to a day certain or an adjournment of the Congress sine die.

EFFECTIVE DATE OF PROCLAMATIONS

SEC. 203. (a) Subject to subsection (b), the President is authorized, notwithstanding section 514 of the Tariff Act of 1930 (19 U.S.C., sec. 1514) or any other provision of law, to give retroactive effect to any proclamation issued pursuant to section 201 of this Act as of the earliest date after January 17, 1965, which he determines to be practicable.

(b) In the case of liquidated customs entries, the retroactive effect pursuant to subsection (a) of any proclamation shall apply only upon request therefor filed with the customs officer concerned on or before the 90th day after the date of such proclamation and subject to such other conditions as the President may specify.

TERMINATION OF PROCLAMATIONS

SEC. 204. The President is authorized at any time to terminate, in whole or in part, any proclamation issued pursuant to section 201 or 202 of this Act.

TITLE III—TARIFF ADJUSTMENT AND OTHER ADJUSTMENT ASSISTANCE

GENERAL AUTHORITY

SEC. 301. Subject to section 302 of this Act, a petition may be filed for tariff adjustment or for a determination of eligibility to apply for adjustment assistance under title III of the Trade Expansion Act of 1962 (19 U.S.C., sec. 1901-1991) as though the reduction or elimination of a duty proclaimed by the President pursuant to section 201 or 202 of this Act were a concession granted under a trade agreement referred to in section 301 of the Trade Expansion Act of 1962.

SPECIAL AUTHORITY DURING TRANSITIONAL PERIOD UNDER THE AGREEMENT

SEC. 302. (a) After the 90th day after the date of the enactment of this Act and before July 1, 1968, a petition under section 301 of this Act for a determination of eligibility to apply for adjustment assistance may be filed with the President by—

(1) a firm which produces an automotive product, or its representative;

or

(2) a group of workers in a firm which produces an automotive product, or their certified or recognized union or other duly authorized representative;

(b) After a petition is filed by a firm or group of workers under subsection (a), the President shall determine whether—

(1) dislocation of the firm or group of workers has occurred or threatens to occur;

(2) production in the United States of the automotive product concerned produced by the firm, or an appropriate subdivision thereof, and of the automotive product like or directly competitive therewith, has decreased appreciably; and

(3) (A) imports into the United States from Canada of the Canadian automotive product like or directly competitive with that produced by the firm, or an appropriate subdivision thereof, have increased appreciably; or

(B) exports from the United States to Canada of the United States automotive product concerned produced by the firm, or an appropriate subdivision thereof, and of the United States automotive product like or directly competitive therewith, have decreased appreciably, and the decrease in such exports is greater than the decrease, if any, in production in Canada of the Canadian automotive product like or directly competitive with the United States automotive product being exported.

(c) If the President makes an affirmative determination under paragraphs (1), (2), and (3) of subsection (b), with respect to a firm or group of workers, he shall promptly certify that as a result of its dislocation the firm or group of workers is eligible to apply for adjustment assistance, unless the President determines that the operation of the Agreement has not been the primary factor in causing or threatening to cause dislocation of the firm or group of workers.

(d) If the President makes an affirmative determination under paragraph (1) but a negative determination under paragraph (2) or (3) of subsection (b), with respect to a firm or group of workers, the President shall determine

whether the operation of the Agreement has nevertheless been the primary factor in causing or threatening to cause dislocation of the firm or group of workers. If the President makes such an affirmative determination, he shall promptly certify that as a result of its dislocation the firm or group of workers is eligible to apply for adjustment assistance.

(e) (1) In order to provide the President with a factual record on the basis of which he may make the determinations referred to in subsections (b), (c), and (d) with respect to a firm or a group of workers, the President shall promptly transmit to the Tariff Commission a copy of each petition filed under subsection (a) and, not later than 5 days after the date on which the petition is filed, shall request the Tariff Commission to conduct an investigation related to questions of fact relevant to such determinations and to make a report of the facts disclosed by such investigation. In his request, the President may specify the particular kinds of data which he deems appropriate. Upon receipt of the President's request, the Tariff Commission shall promptly institute the investigation and promptly publish notice thereof in the Federal Register.

(2) In the course of each investigation conducted under paragraph (1), the Tariff Commission shall, after reasonable notice, hold a public hearing, if such hearing is requested (not later than 10 days after the date of the publication of its notice under paragraph (1)) by the petitioner or any other person showing a proper interest in the subject matter of the investigation, and shall afford interested persons an opportunity to be present, to produce evidence, and to be heard at such hearing.

(3) Not later than 50 days after the date on which it receives the request of the President under paragraph (1), the Tariff Commission shall transmit to the President a report of the facts disclosed by its investigation, together with the transcript of the hearing and any briefs which may have been submitted in connection with such investigation.

(f) (1) The President shall make each final determination under subsection (b), (c), or (d) with respect to a firm or group of workers only after he has sought advice from the Departments of Commerce, Labor, and the Treasury, the Small Business Administration, and such other agencies as he may deem appropriate.

(2) The President shall make each such final determination not later than 15 days after the date on which he receives the Tariff Commission's report, unless, within such period, the President requests additional factual information from the Tariff Commission. In this event, the Tariff Commission shall, not later than 25 days after the date on which it receives the President's request, furnish such additional factual information in a supplemental report, and the President shall make his final determination not later than 10 days after the date on which he receives such supplemental report.

(3) The President shall promptly publish in the Federal Register a summary of each final determination under this section.

(g) Any certification with respect to a group of workers made by the President under this section shall—

(1) specify the date on which the dislocation began or threatens to begin; and

(2) be terminated by the President whenever he determines that the operation of the Agreement is no longer the primary factor in causing separations from the firm or subdivision thereof, in which case such determination shall apply only with respect to separations occurring after the termination date specified by the President.

(h) Any certification with respect to a firm or a group of workers or any termination of such certification, including the specification of a date in such certification or termination, made by the President under this section shall constitute a certification or termination, including the specification of a date therein, under section 302 of the Trade Expansion Act of 1962 (19 U.S.C., sec. 1902) for purposes of chapter 2 or 3 of title III of that Act.

(i) If a firm which has been certified under this section applies for tax assistance as provided by section 317 of the Trade Expansion Act of 1962, the reference in subsection (a) (2) of such section 317 to a trade or business which was seriously injured by increased imports which the Tariff Commission has determined to result from concessions granted under trade agreements shall be treated as referring to a trade or business which was seriously injured by the operation of the Agreement.

(j) Notwithstanding any provision of chapter 3 of title III of the Trade Expansion Act of 1962 or of this title, applications based on any certification made by the President under this section for—

(1) trade readjustment allowances for weeks of unemployment beginning after January 17, 1965, and before the 90th day after the date of the enactment of this Act, and

(2) relocation allowances for relocations occurring after January 17, 1965, and before such 90th day,

shall be determined in accordance with regulations prescribed by the Secretary of Labor.

(k) The President is authorized to exercise any of his functions under this section through such agency or other instrumentality of the United States Government as he may direct and in conformity with such rules or regulations as he may prescribe.

(l) For the purposes of this section—

(1) The term "automotive product" means a motor vehicle or a fabricated component to be used as original equipment in the manufacture of motor vehicles.

(2) The term "dislocation" means—

(A) in the case of a firm, injury to the firm, which may be evidenced by such conditions as idling of productive facilities, inability to operate at a level of reasonable profit, or unemployment or underemployment, and which is of a serious nature; and

(B) in the case of a group of workers, unemployment or underemployment of a significant number or proportion of the workers of a firm or an appropriate subdivision thereof.

(3) The term "firm" includes an individual proprietorship, partnership, joint venture, association, corporation (including a development corporation), business trust, cooperative, trustees in bankruptcy, and receivers under decree of any court. A firm, together with any predecessor, successor, or affiliated firm controlled or substantially beneficially owned by substantially the same persons, may be considered a single firm where necessary to prevent unjustifiable benefits.

(4) The term "operation of the Agreement" includes governmental or private actions in the United States or Canada directly related to the conclusion or implementation of the Agreement.

ADJUSTMENT ASSISTANCE RELATED TO OTHER AGREEMENTS

Sec. 303. At the time the President transmits to the Congress a copy of any agreement pursuant to section 202(d) (1), he shall recommend to the Congress such legislative provisions concerning adjustment 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 for by such agreement.

AUTHORIZATION OF APPROPRIATIONS

Sec. 304. There are hereby authorized to be appropriated such sums as may be necessary from time to time to carry out the provisions of this title, which sums are authorized to be appropriated to remain available until expended.

TITLE IV—MODIFICATIONS OF TARIFF SCHEDULES OF THE UNITED STATES

ENTRY INTO FORCE AND STATUS OF MODIFICATIONS

Sec. 401. (a) The modifications of the Tariff Schedules of the United States provided for in this title shall not enter into force except as proclaimed by the President pursuant to section 201 (a) of this Act.

(b) The rates of duty in column numbered 1 of the Tariff Schedules of the United States which are modified pursuant to section 201 (a) of this Act shall be treated—

(1) as not having the status of statutory provisions enacted by the Congress, but

(2) as having been proclaimed by the President as being required to carry out a foreign trade agreement to which the United States is a party.

REFERENCES TO TARIFF SCHEDULES

Sec. 402. (a) Whenever in this title a modification is expressed in terms of a modification of an item or other provision, the reference shall be considered to be made to an item or other provision of the Tariff Schedules of the United States (28 F.R., part II, Aug. 17, 1963; 77A Stat.; 16 U.S.C., sec. 1202). Each page reference "(p.)" in this title refers to the page both in part II of the Federal Register for August 17, 1963, and in volume 77A of the United States Statutes at Large on which the item or provision referred to appears or is to appear.

(b) Title I of the Tariff Act of 1930, as in effect on or after August 31, 1963, may be cited as the "Tariff Schedules of the United States".

DEFINITION OF CANADIAN ARTICLE

Sec. 403. In general headnote 3 (p. 11) redesignate paragraphs (d), (e), and (f) as paragraphs (e), (f), and (g), respectively, and insert a new paragraph (d) as follows:

"(d) Products of Canada.

"(i) Products of Canada imported into the customs territory of the United States, whether imported directly or indirectly, are subject to the rates of duty set forth in column numbered 1 of the schedules. The rates of duty for a Canadian article, as defined in subdivision (d)(ii) of this headnote, apply only as shown in the said column numbered 1.

"(ii) The term 'Canadian article', as used in the schedules, means an article which is the product of Canada, but does 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 (that is, the actual purchase price, or, if not purchased, the export value, of such materials, plus, if not included therein, the cost of transporting such materials to Canada but exclusive of any landing cost and Canadian duty) was—

"(A) with regard to any motor vehicle or automobile truck tractor entered on or before December 31, 1967, more than 60 percent of the appraised value of the article imported into the customs territory of the United States; and

"(B) with regard to any other article (including any motor vehicle or automobile truck tractor entered after December 31, 1967), more than 50 percent of the appraised value of the article imported into the customs territory of the United States."

DEFINITION OF ORIGINAL MOTOR-VEHICLE EQUIPMENT

Sec. 404. In the headnotes for subpart B, part 6, schedule 6 add after headnote 1 (p. 825) the following new headnote:

"2. Motor Vehicles and Original Equipment Therefor of Canadian Origin.—

(a) The term 'original motor-vehicle equipment', as used in the schedules with reference to a Canadian article (as defined by general headnote 3(d)), means such a Canadian article which has been obtained from 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, but the term does not include trailers or articles to be used in their manufacture.

"(b) The term 'motor vehicle', as used in this headnote, means a motor vehicle of a kind described in Item 692.05 or 692.10 of this subpart (excluding an electric trolley bus and a three-wheeled vehicle) or an automobile truck tractor.

"(c) The term 'bona fide motor-vehicle manufacturer', as used in this headnote, means a person who, upon application to the Secretary of Commerce, is determined by the Secretary to have produced no fewer than 15 complete motor vehicles in the United States during the previous 12 months, and to have installed capacity in the United States to produce 10 or more complete motor vehicles per 40-hour week. The Secretary of Commerce shall maintain, and publish from time to time in the Federal Register, a list of the names and addresses of bona fide motor-vehicle manufacturers.

"(d) If any Canadian article accorded the status of original motor-vehicle equipment is not so used in the manufacture in the United States of motor vehicles, such Canadian article or its value (to be recovered from the importer or other person who diverted the article from its intended use as original motor-

vehicle equipment) shall be subject to forfeiture, unless at the time of the diversion of the Canadian article the United States Customs Service is notified in writing, and, pursuant to arrangements made with the Service—

"(I) the Canadian article is, under customs supervision, destroyed or exported, or

"(II) duty is paid to the United States Government in an amount equal to the duty which would have been payable at the time of entry if the Canadian article had not been entered as original motor-vehicle equipment."

IDENTIFICATION OF AUTOMOTIVE PRODUCTS

Sec. 405. (a) Redesignate Item 692.25 (p. 326) as 692.27; in headnote 1 (b) of subpart B, part 6, schedule 6 (p. 325) substitute "Item 692.27" in lieu of "Item 692.25"; and insert in proper numerical sequence (pp. 325 and 326) new items as follows:

692.06	If Canadian article, but not including any electric trolley bus, three-wheeled vehicle, or trailer accompanying an automobile truck tractor (see general headnote 3(d))	Free
692.11	If Canadian article, but not including any three-wheeled vehicle (see general headnote 3(d))	Free
692.21	Chassis, if Canadian article, except chassis for an electric trolley bus, or a three-wheeled vehicle; bodies (including cabs), if Canadian article and original motor-vehicle equipment (see headnote 2 of this subpart)	Free
692.23	Chassis, if Canadian article, except chassis designed primarily for a vehicle described in item 692.18 or a three-wheeled vehicle; bodies (including cabs), if Canadian article and original motor-vehicle equipment (see headnote 2 of this subpart)	Free
692.25	If Canadian article and original motor-vehicle equipment (see headnote 2 of this subpart)	Free
692.28	Automobile truck tractor, if Canadian article; other articles, if Canadian article and original motor-vehicle equipment (see headnote 2 of this subpart)	Free

(b) Insert in proper numerical sequence (pp. 150, 229, 297, 306, 308, 821, 823, 355, and 364; respectively) new items as follows:

361.90	Any article described in the foregoing items 360.90 to 360.70, inclusive, 360.80, 361.80, or 361.85, if Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6)	Free
516.98	Any article described in the foregoing items 516.71 to 516.76, inclusive, or 516.94, if Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6)	Free
646.79	Any article described in the foregoing item 646.20 and items 646.40 to 646.78, inclusive (except 646.45 and 646.47), if Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6)	Free
652.39	Any article described in the foregoing items 652.12 to 652.38, inclusive, if Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6)	Free
658.10	Any article described in the foregoing items 657.09 to 658.00, inclusive, if Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6)	Free
682.65	Any article described in the foregoing items 682.10 to 682.60, inclusive (except 682.60), if Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6)	Free
685.55	Any article described in the foregoing items 685.20 to 685.80, inclusive, if Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6)	Free
721.50	Any article in the foregoing items covering clocks, clock movements, clock cases and dials and parts thereof, plates (720.67), assemblies and subassemblies for clock movements, and other parts for clock movements, if Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6)	Free
727.69	Any article described in the foregoing items 727.10 to 727.55, inclusive, if Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6)	Free

(c) Insert in proper numerical sequence (pp. 145, 164, 365, 380, and 395, respectively) new items 355.27, 359.80, 728.80, 745.80, and 774.70, each having an article description and rate as follows:

Any article described in the foregoing provisions of this subpart, if Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6).....	Free
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(d) Redesignate item 618.16 as 618.18; and insert in proper numerical sequence new items as follows:

207.01 (p. 92)	653.41 (p. 307)	684.51 (p. 322)
220.48 (p. 93)	660.43 (p. 310)	684.63 (p. 322)
357.91 (p. 147)	660.45 (p. 310)	684.71 (p. 323)
357.96 (p. 147)	660.47 (p. 310)	685.71 (p. 323)
358.11 (p. 147)	660.51 (p. 310)	685.81 (p. 323)
517.82 (p. 229)	660.53 (p. 310)	685.91 (p. 323)
535.15 (p. 242)	660.55 (p. 310)	686.11 (p. 323)
540.72 (p. 244)	660.86 (p. 310)	686.21 (p. 323)
544.18 (p. 247)	660.91 (p. 310)	686.61 (p. 324)
544.82 (p. 247)	661.11 (p. 310)	686.81 (p. 324)
544.42 (p. 247)	661.18 (p. 310)	687.51 (p. 324)
544.52 (p. 248)	661.16 (p. 310)	687.61 (p. 324)
544.55 (p. 248)	661.21 (p. 310)	688.16 (p. 324)
545.62 (p. 249)	661.36 (p. 311)	688.41 (p. 324)
545.64 (p. 249)	661.96 (p. 311)	711.85 (p. 346)
547.16 (p. 249)	662.36 (p. 312)	711.91 (p. 346)
610.81 (p. 278)	662.51 (p. 312)	711.96 (p. 346)
618.16 (p. 278)	664.11 (p. 312)	711.95 (p. 346)
618.19 (p. 278)	678.51 (p. 318)	711.97 (p. 346)
618.48 (p. 279)	680.21 (p. 319)	711.99 (p. 346)
620.47 (p. 281)	680.23 (p. 319)	712.26 (p. 346)
642.21 (p. 292)	680.28 (p. 319)	712.28 (p. 346)
642.86 (p. 294)	680.81 (p. 319)	712.51 (p. 346)
642.88 (p. 294)	680.36 (p. 319)	772.66 (p. 394)
646.93 (p. 298)	680.58 (p. 319)	772.81 (p. 394)
647.01 (p. 298)	680.61 (p. 319)	772.86 (p. 394)
647.06 (p. 298)	682.71 (p. 321)	773.26 (p. 395)
652.10 (p. 305)	682.91 (p. 321)	773.31 (p. 395)
652.76 (p. 306)	683.11 (p. 321)	773.36 (p. 395)
652.86 (p. 306)	683.16 (p. 321)	791.81 (p. 399)
652.88 (p. 306)	683.61 (p. 322)	791.91 (p. 399)

each such item having the article description "If Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6)....." subordinate to the immediately preceding article description, and having "Free" in rate of duty column numbered 1.

TITLE V—GENERAL PROVISIONS

AUTHORITIES

Sec. 501. The head of any agency performing functions authorized by this Act may—

(1) authorize the head of any other agency to perform any of such functions; and

(2) prescribe such rules and regulations as may be necessary to perform such functions.

ANNUAL REPORT

Sec. 502. The President shall submit to the Congress an annual report on the implementation of this Act; such report shall include information regarding new negotiations, reductions or eliminations of duties, reciprocal concessions obtained, and other information relating to activities under this Act.

Passed the House of Representatives August 31, 1965.

Attest:

RALPH R. ROBERTS, Clerk.

[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)

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1965

COMMISSION ON AUTOMOBILE AGREEMENTS
U.S. DEPARTMENT OF COMMERCE
WASHINGTON, D. C.

COMMISSION ON AUTOMOBILE AGREEMENTS

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U.S. DEPARTMENT OF COMMERCE

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CHAPTER IV

THE CONSTITUTION

The Constitution of the United States is the supreme law of the land. It is the foundation of the government and the rights of the people. It was drafted in 1787 and ratified in 1788. The Constitution is a living document that has been amended many times over the years. The amendments have added to the original text and have changed the way the government works. The Constitution is the most important document in the history of the United States.

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**MATERIAL CONCERNING AUTOMOTIVE PRODUCTS TRADE
ACT OF 1945**

PRESIDENT'S MESSAGE ON H.R. 6960

[H. Doc. 182]

**89TH CONGRESS } HOUSE OF REPRESENTATIVES { DOCUMENT
1st Session } { No. 182**

**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, 1946.—Referred to the Committee on Ways and Means and ordered
to be printed

**THE WHITE HOUSE,
Washington, March 31, 1946.**

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 free

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.

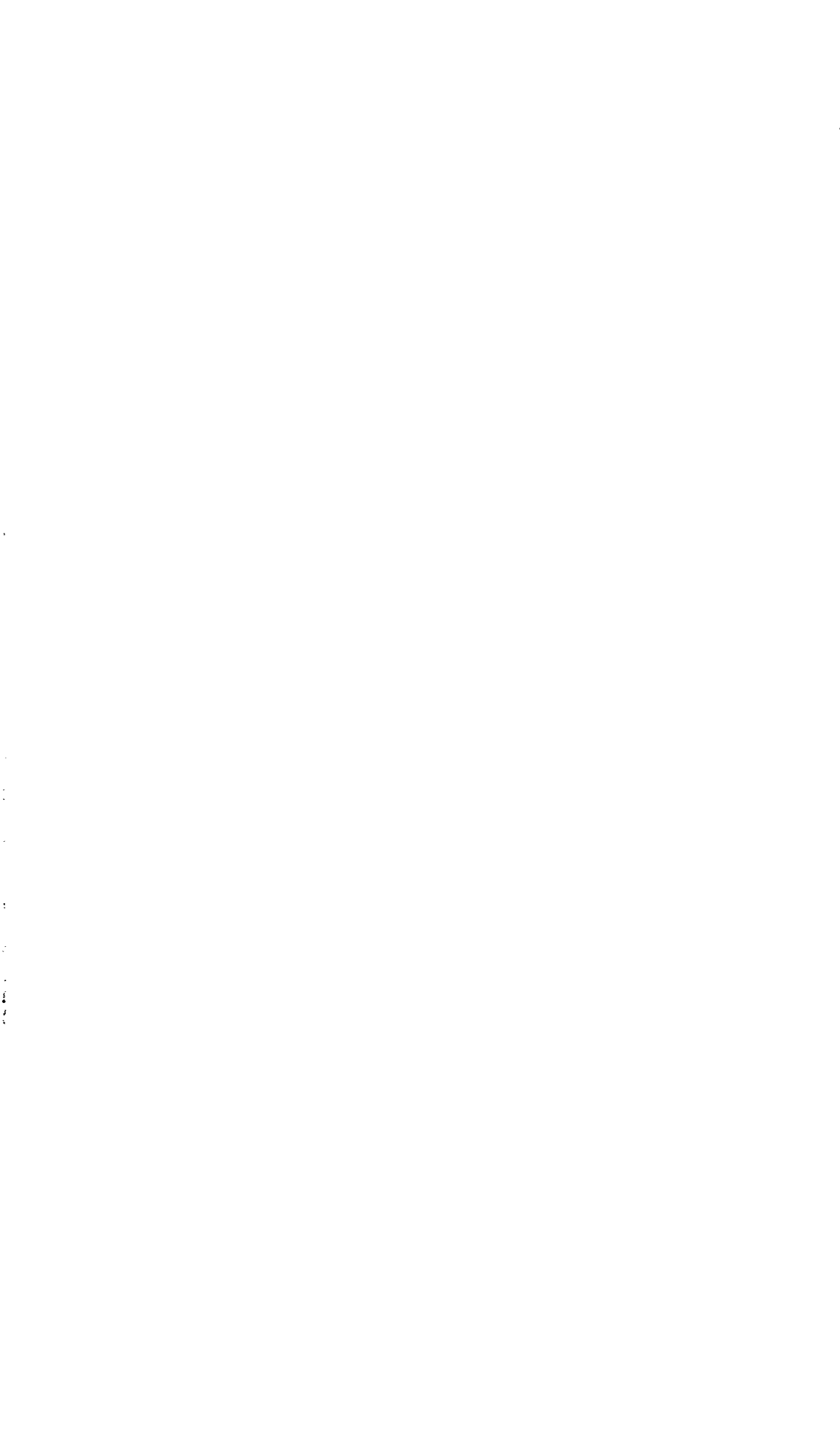
Paragraph 3 relates to the designation of manufacturers not coming within the definition of "manufacturer" (as that term is defined in par. 2) as being eligible for the benefits of duty-free treatment.

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 (e) 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 498C Regulations* or *Tariff Item 498(d) and 498(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 \$80 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)(e)(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 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 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)
692.06 (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
692.26 (692.27 (692.28))	Transmissions, wheels, brake drums, bumpers, radiators, tail pipes, steering gear assemblies, mufflers, etc.	29
800.20		
800.25		
800.30		
800.35		
800.36		
800.40		
800.45		
800.65		
800.70		
800.80		
801.80		
801.85		
516.71		
516.78		
516.74 (516.96)		
516.76		
516.94		
646.20		
646.40		
646.41		
646.42 and (646.7)		
646.49 through 646.78		
652.12 through (652.39)		
652.38		
657.09 through (658.10)		
658.00		
682.10 through 682.4) and (682.65)		
682.55		
682.60		
683.20 through (685.55)		
685.60		
Schedule 7, pt. 2 (721.20)		
Subpt. E		
727.10 through (727.60)		
727.55		
207.00 (207.01)		
220.45 (220.46)		
357.90 (357.91)		
357.95 (357.96)		
358.10 (358.11)		
517.81 (517.82)		
635.14 (635.15)		
640.71 (640.72)		
644.17 (644.18)		
644.31 (644.32)		
644.41 (644.42)		
644.51 (644.52)		
644.54 (644.55)		
645.61 (645.62)		
645.63 (645.64)		
647.15 (647.16)		
610.80 (610.81)		
613.15 (613.16)		
613.16 (613.19)		
613.18		
613.47 (613.48)		
620.46 (620.47)		
642.20 (642.21)		
642.83 (642.86)		
642.87 (642.88)		
	Textile floor coverings and floor covering underlays made up for automotive use.	X
	Mica components for use in electrical equipment.....	X
	Fasteners (staples, rivets, cotters, and cotter pins, screws, bolts, nuts, studs and studding, etc.).	1
	Timing chains and other chains.....	0
	Ornaments, decorative trim units, miscellaneous forgings, and castings.	X
	Electric motors, generators, rectifiers, etc. (primarily small motors for use in motor vehicles).	X
	Radio, television, and phonographic equipment (limited in automotive use).	0
	Clocks and parts.....	X
	Furniture and parts thereof (mainly metal for automotive use).	X
	Wooden components, not specifically provided for.....	X
	Disks, washers, etc., of cork.....	X
	Hose, of vegetable fiber or other textile materials.....	X
	Belts of rubber, vegetable fibers, plastics (e.g., fan belts)...	X
	Carbon and graphite brushes for generators or motors.....	0
	Ceramic insulators and other ceramic electrical ware.....	0
	Fiber glass components such as insulation panels.....	0
	Glass components and various types and dimensions of cut.....	0
	Tempered glass components such as car windows.....	X
	Laminated glass components, such as windshields.....	X
	Mirrors.....	0
	Reflecting lenses and lenses for headlights and taillights..	X
	Protective glass components.....	0
	Pipe and tube fittings (e.g., fuel and hydraulic lines) of steel, copper, aluminum, nickel.	X
	Cable fitted with fittings; wire mesh components.....	X

Present and (new) T&S numbers	Major items covered	1964: Estimated percent of U.S. imports from Canada (X = less than 1 percent)
646.02 (646.08)	Ignition, gas tank and door locks; hinges; handles; grills; metal letters and sign-plates.	X
647.00 (647.01)		
647.05 (647.06)		
652.09 (652.10)		
652.75 (652.76)		
652.85 (652.86)	Springs for suspension	5
652.87 (652.88)		
653.40 (653.41)	Other springs (for use with brake pedals, carburetors, etc.)	X
653.42 (653.43)	Auxiliary lighting equipment (e.g., parking, dome)	
660.42 (660.43)	Diesel engines	X
660.44 (660.45)	Spark-ignition engines (e.g., standard gasoline engines)	16
660.46 (660.47)	Non-piston-type engines (turbines, etc.)	0
660.50 (660.51)	Engine parts (e.g., pistons, cylinder heads, crankshaft assemblies, connecting rods).	14
660.52 (660.53)		
660.54 (660.55)		
660.55 (660.56)	Nonelectric engines and motors, not specifically provided for.	0
660.90 (660.91)	Fuel, oil, water, and carburetor pumps	X
661.10 (661.11)	Fans; compressors used in air conditioners and braking systems.	0
661.12 (661.13)		
661.15 (661.16)		
661.20 (661.21)	Air conditioners and parts; refrigerators and parts.	X
661.25 (661.26)		
661.95 (661.96)		
662.35 (662.36)	Filtering and spraying equipment	0
662.50 (662.51)		
664.10 (664.11)	Hoists, winches, etc.	X
678.50 (678.51)	Machinery, not specifically provided for (a catch-all)	
680.20 (680.21)	Cooling system drain plugs; fuel system valves.	X
680.22 (680.23)		
680.27 (680.28)		
680.30 (680.31)	Balls, rollers, ball and roller bearings.	X
680.35 (680.36)		
680.57 (680.58)		
680.60 (680.61)	Lubrication fittings	0
682.70 (682.71)	Nonelectric machinery parts, not specifically provided for (a catch-all).	0
682.90 (682.91)		
683.10 (683.11)	Permanent magnets for use in small motors and solenoids; batteries and parts thereof.	X
683.15 (683.16)		
684.50 (684.51)		
683.60 (683.61)	Starting and ignition equipment (mostly starters, generators, and spark plugs).	X
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
687.60 (687.61)		
688.15 (688.16)		
688.40 (688.41)	Electrical articles, not specifically provided for (catch-all)	0
711.84 (711.85)		
711.90 (711.91)		
711.92 (711.93)		
711.94 (711.95)		
711.98 (711.97)	Thermostats, oil pressure gauges, taximeters, speedometers, odometers.	X
711.99 (711.99)		
712.25 (712.26)	Rubber tubing, gaskets, insulators, V-belts	X
712.27 (712.28)		
712.50 (712.51)		
772.65 (772.66)		
772.80 (772.81)		
772.85 (772.86)		
772.95 (772.96)		
772.90 (772.91)		
772.95 (772.96)		
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
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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.....	30.8	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. 1181). [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.

The CHAIRMAN. The administration is represented here today by Under Secretary of State for Economic Affairs, the Honorable Thomas C. Mann; the Secretary of Commerce, the Honorable John T. Connor; and the Secretary of Labor, the Honorable Willard W. Wirtz.

It is my understanding that the statements of these Departments have been coordinated and that the Secretaries would prefer to sit at the table at the same time so that each might deliver his statement in full before there are questions, and that after all the statements are delivered the panel will respond to any questions which members may have.

Will the gentlemen come forward and have a seat? Please identify yourself and the assistants who may be accompanying you.

Mr. MANN. Senator, I am Mr. Mann, and on my left is Mr. Trezise, both from the State Department.

Secretary CONNOR. I am Secretary Connor, Mr. Chairman, and with me is Robert McNeill, the Deputy Assistant Secretary for Trade Policy.

Secretary WIRTZ. I am Willard W. Wirtz, Mr. Chairman; Secretary of Labor.

The CHAIRMAN. Glad to have you, gentlemen.

Who will be the first witness?

Mr. MANN. I will.

The CHAIRMAN. Go ahead, sir.

STATEMENT OF HON. THOMAS C. MANN, UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS, ACCOMPANIED BY PHILIP H. TREZISE, DEPUTY ASSISTANT SECRETARY FOR ECONOMIC AFFAIRS, DEPARTMENT OF STATE; HON. JOHN T. CONNOR, SECRETARY OF COMMERCE; ACCOMPANIED BY ROBERT L. McNEILL, DEPUTY ASSISTANT SECRETARY FOR TRADE POLICY, DEPARTMENT OF COMMERCE; AND HON. WILLARD WIRTZ, SECRETARY OF LABOR

Mr. MANN. Mr. Chairman and members of the committee, last January, President Johnson and Prime Minister Pearson signed an important automotive products agreement directed toward freeing trade in automotive products between the United States and Canada.

Senator Gore. Mr. Chairman, I wish to challenge the accuracy of the very first statement of the Under Secretary. It is not only contrary to the contents of the agreement, but entirely contrary to the statement of Canada issued at the time of execution of this document.

Canada said that it was the purpose to continue "the present automotive plan," that is the restrictive tariff remission plan, and to enable Canadian producers to proceed with expansion plans. Instead of this being an agreement to make freer trade, it is the very antithesis of free trade. I do not wish to interfere further but I challenge the very first statement the Secretary makes.

Mr. MANN. I would like to read again the first sentence. Last January, President Johnson and Prime Minister Pearson signed an important automotive products agreement directed toward freeing trade in automotive products between the United States and Canada.

The legislation before you now, H.R. 9042, is necessary to carry out our side of that agreement.

Before discussing the legislation itself, it may be helpful for me to review with you briefly the background of this legislation and the agreement that it implements.

Canada and the United States are each other's most important trading partners. The value of the trade between us is more than \$8 billion annually—the greatest between any two nations in the world. Our two-way trade last year in automotive products alone was about \$700 million and is growing rapidly.

The Canadian and United States automotive industries are strikingly similar. Consumers in both countries prefer the same kinds of cars. Over 90 percent of the automotive products manufactured in Canada are made by subsidiaries of U.S. companies. United States and Canadian auto workers belong to the same international union. Furthermore, it has been generally recognized that the separation of our two automotive industries by artificial trade barriers is economically unsound.

Before the agreement, Canada imposed a duty of 17½ percent on motor vehicles and up to 25 percent on parts. In addition, a "Commonwealth content" provision encouraged Canadian manufacturers to include at least 60 percent of Canadian value in their output. For our part the United States imposed a 6½-percent duty on automobiles and an 8½-percent duty on parts.

The protective devices maintained by Canada stimulated the growth of an automotive industry, but not a fully efficient one.

Senator GORE. Mr. Chairman, may I ask a question there?

When you refer to protective devices, Mr. Secretary, are you referring to the duty remission device which Canada instituted?

Mr. MANN. Yes, sir; that among other things, I am.

Senator GORE. And—

Mr. MANN. I am coming to that a little later in the statement, sir.

Senator GORE. You are aware that in Canada's official statement, public statement, it is said that the purpose of the agreement which was signed early this year between the United States and Canada was to continue this kind of plan?

Mr. MANN. No, sir; I am not aware that the Canadians worded it precisely that way. There are—

Senator GORE. The quote I read you I may advise you—

Mr. MANN. Yes, sir; but—

Senator GORE. May I continue?

Mr. MANN. Thank you, Senator.

Senator GORE. The quotation I read you was contained in the report on this agreement made to the House Ways and Means Committee by the U.S. Tariff Commission. You are still not familiar with it?

Mr. MANN. Yes, sir; I am familiar with the statement. I heard you read it, Senator, just a moment ago.

Senator GORE. Then what was your statement as to the effect of it?

Mr. MANN. I think the statement you read is not precisely similar to the statement you made just a moment ago. There are two conditions in the agreement, and there is an undertaking in the letters between the automobile manufacturers and the Canadian Government, which are rather technical in nature and which I am sure the

committee will want to go into in great detail. But the present agreement does change very substantially the remission of duties plan which was in force before the agreement was signed.

Senator GORE. It makes it worse so far as the United States is concerned.

Mr. MANN. Well, we think, Senator, with all due respect, that it improves it.

The CHAIRMAN. You may proceed.

Senator GORE. But you do say that these protective devices stimulated the growth of Canadian exports to the United States.

Mr. MANN. What sentence do you refer to, Senator? Do you have a copy of the statement here? Which paragraph?

Senator GORE. The sentence which you just read. The protective devices maintained by Canada stimulated the growth of an automotive industry but not a fully efficient one.

Mr. MANN. Yes, sir; that means an automotive industry in Canada but not a fully efficient one. That is correct, sir.

Senator GORE. Does it mean that it stimulated the growth of exports to the United States?

Mr. MANN. No, sir; that is not what it says.

Senator GORE. Is that not a fact?

Mr. MANN. Yes, sir. I think that the remission of duty plan—if that is what you are talking about—did have the effect of stimulating some exports to the United States, and this was a matter of considerable concern to us.

Senator GORE. You have earlier said that one of these devices to which you referred in your statement was the duty remission plan.

Mr. MANN. Yes, sir, and the tariffs, and the tariffs.

Senator GORE. Thank you.

The CHAIRMAN. Proceed.

Mr. MANN. Canadian subsidiaries of U.S. manufacturers built plants that duplicated similar facilities in the United States. But because of the more limited Canadian market, they were unable to achieve the economies of scale realized by their parent companies. The same automobile costs a Canadian about 10 percent or more above its cost to an American.

Faced with high cost production and higher priced products, a lagging growth rate in its industry, and a steadily increasing trade deficit, the Canadian Government sought to correct this situation.

In November 1962, it announced a duty-remission plan to encourage increased Canadian production of a few automotive products and to stimulate Canadian exports. The plan was extended in 1963 to cover all automobiles and parts for original production. Under this plan, Canadian manufacturers who increased their automotive exports would receive an import duty rebate on a comparable value of automotive imports.

A number of U.S. manufacturers became concerned that this plan might give Canadian parts manufacturers an unfair advantage. Particular concern was felt by the U.S. manufacturers of replacement parts because the Canadian plan gave credits for exports of such parts but did not allow a corresponding duty reduction for imports of these parts.

These manufacturers petitioned the Government to impose countervailing duties on Canadian automotive imports under section 303 of the Tariff Act, which provides for the imposition of such duties when "bounties and grants" are given by foreign countries for exports to the United States.

While the question of imposing countervailing duties was under investigation, the administration examined the entire problem of our automotive trade with Canada. There was some question as to the legality of imposing countervailing duties. There was also every reason to believe that if countervailing duties had been applied, we would have been headed down a path of retaliation and counterretaliation. This could have had a disastrous effect on sales of U.S. automotive parts in Canada; it could have radically reduced our favorable balance of trade with Canada in automotive products; and it could have led to substantial loss of employment in the United States.

Senator GORE. Mr. Secretary, who, under the circumstances, would have been responsible for initiating a tariff war, the country which started the duty remission plan or the country which reacted with countervailing duties?

Mr. MANN. Well, I think that if we had gotten into a retaliation and counterretaliation kind of situation, we would have said that Canada had initiated it with its duty remission plan, Senator.

Senator GORE. Well, Canada did initiate the duty remission plan.

Mr. MANN. That is correct; yes, sir.

Senator GORE. The United States was forced to do so by sorely pressed small business and the United States really never got around to finishing the study which it initiated; is that correct?

Mr. MANN. Well, I think we did finish the study—

Senator GORE. Will you supply the committee with a copy of it?

Mr. MANN. I wasn't here at the time, but I am told by Mr. Trezise that the results of the study were not reduced to writing. However, the various departments in consultation with the industry and with labor over a long period of time did come to certain conclusions and the principal conclusion was it would benefit both the United States and Canadian industries as well as labor in both countries, and both—

Senator GORE. Will you supply the committee with the study?

Mr. MANN. I just stated, Senator, so far as I know it is not reduced to writing. I will look to see if there is something in writing on this and if it is I will be glad to submit it.

(The following was later received for the record:)

On June 3, 1964, the Treasury Department published a notice in the Federal Register soliciting comment on a question as to whether the Canadian order-in-council (PO 1963-1/1544 of October 22, 1963) operated to pay or bestow directly or indirectly a bounty or grant within the meaning of section 303 of the Tariff Act of 1930 (19 U.S.C. 1303) upon the manufacture or production or export of motor vehicles and motor vehicle parts manufactured or produced in Canada and imported into the United States. Extensive and opposing arguments as to the applicability of section 303 were in due course submitted by interested parties.

These arguments were carefully considered by the Treasury Department which also undertook its own examination of the problem. While this examination was underway, and before the Secretary of the Treasury had reached a final decision on the matter, it became evident that the Canadian Government would rescind the order-in-council as a corollary to signing the automobile products agreement, the negotiations about which were well advanced. When the Canadian Government did rescind the order, the question became moot and a decision that there

was no ground for further action under the law was accordingly announced in January 1965.

Senator GORE. The administration is asking Congress to pass a bill approving this agreement, and without the benefit of the study that the Government has made.

Mr. MANN. Well, Senator, a study was made but it is not unusual in studies of this kind for them to take the form of consultation with labor, consultation with the industry, studies—

Senator GORE. A little consultation with the Congress would be helpful.

Mr. MANN. I wasn't here at that time, Senator, but I understand there was considerable discussion with some interested Members of Congress in both Houses.

Senator GORE. How long has it been before this that an agreement, a trade agreement, was signed bilaterally by the United States without prior action by the Congress?

Mr. TREZISE. Well, sir, we did in the cotton textile agreement undertake, in effect, a trade agreement with other countries without prior authorization of Congress which was given later. That was within the last couple of years.

Senator GORE. I beg your pardon, these were not trade agreements.

Mr. TREZISE. They had the effect of dictating the terms of trade.

Senator GORE. Well, these were not agreements between Japan and the United States, the Governments of the United States and Japan, were they?

Mr. TREZISE. Yes; they were.

Mr. MANN. Senator, in any case, the agreement which was signed with Canada, in this particular case, was subject to approval by the Congress and this is precisely why we are here now, to talk to the Congress about it and Congress, of course, will decide whether they think it is good for our trade and for our economy.

Senator GORE. But the administration comes after the agreement has been signed, not before.

Mr. MANN. I repeat, that the agreement does not enter into force as far as the United States is concerned until and unless the Congress does approve it.

Senator DOUGLAS. I happened to have been the Senator who cast the deciding vote against the Bricker amendment, so I think my credentials on the subject are fairly well established. But the administrative branches of Government, I think, have provoked the Congress and the Senate very often in entering into agreements with foreign countries not requiring Senate ratification which are, in effect, treaties, and then after the agreement has been signed we are placed in the very uncomfortable position that if we disapprove of it, of the agreement, nevertheless, to refuse to pass the agreement places the administration and the foreign policy of the country in a very difficult situation. I grant that in many matters the need for speed is great, and that you can't go through the long process of submitting a treaty to the Senate. But I do say there is a temptation for officers of Government and particularly for officers of the State Department to try to circumvent the Senate and present the Congress, as in this instance, with an accomplished fact, and I hope that the Bricker amendment will not be revived.

But I can only say that actions such as these will strengthen the movement behind another Bricker amendment.

Senator GORE. Well, is not this bilateral agreement contrary to the policy of the Trade Expansion Act of 1962, and does it not violate the most-favored-nation clause of our trade policy?

Mr. MANN. Well, the answer, I think, to the first question is, Senator, that it is not inconsistent with the purposes of the Trade Expansion Act. This will expand trade in automotive products between the United States and Canada.

Senator GORE. It will expand exports to the United States from Canada and export jobs to Canada.

Mr. MANN. Yes, sir; and also expand—

Senator GORE. Did you say yes, sir?

Mr. MANN. It will result in our opinion in a higher level of imports from Canada. It will also result in a higher level of exports of automotive products to Canada, and higher employment in both countries, in our opinion. This is the judgment of the experts, and certainly the first 6 months that have passed since the agreement has been signed would tend to confirm that. We have a favorable balance of trade in automotive products with Canada of about a half billion dollars. This has been steadily growing.

Our industry is more efficient and more competitive than the Canadian industry, and our feeling is that the margin of competitive advantage to the United States under this agreement will be maintained.

We have a favorable—

Senator GORE. Is that the opinion?

Mr. MANN. Yes, sir; that is the opinion of everybody who has looked into this, Senator, all the experts who have studied it, and I was about to add, also, that we have had a favorable balance of trade with Canada of more than one-half billion dollars a year, so that we are not concerned, Senator, that the American automotive industry will be unable—and the United States will be unable to compete in Canada. It always has been able to compete, and we believe this will continue to be the case, and we believe the level of exports from the United States to Canada will rise.

Senator GORE. Well, Mr. Secretary, the question of the ability of the U.S. automotive industry to compete in Canada is not involved here. The question involved here is the ability of the Canadian industry to compete in the United States. And if you are ready for a question, since you referred to the experience under the agreement in the last 6 months, I would like to ask a few questions based upon the statistics which experts supplied.

What was the increase in imports from Canada, automotive and automotive parts, after the imposition of the duty remission plan by Canada?

Mr. MANN. Excuse me, Senator, we have some tables here and we are looking for the figures.

Senator GORE. Oh, yes; I am in no hurry.

Mr. TREZISE. It appears, Senator, that in the years between calendar years 1963 and 1964, which I guess is the relevant period, our imports went up from \$33 million to about \$90 million in Canada.

Senator GORE. Almost a 200-percent increase?

Mr. TREZISE. That is based on Canadian data. Our own data are slightly different, but—

Senator GORE. What is our own data?

Mr. TREZISE. I don't have the 1963 figures, I am sorry, but they are in the same order of magnitude.

Senator GORE. In the order of a 200-percent increase.

Now, Mr. Secretary, after—you referred to the 6 months ensuing from the signing of this agreement. Will you give us the imports into the United States during that period?

Mr. TREZISE. Into the United States?

Senator GORE. Yes.

Mr. TREZISE. Our data shows about \$60 million of automotive products, exports \$385 million. So our net position improved.

Senator GORE. Your imports, according to your statistics are this year at the level of \$120 million?

Mr. TREZISE. Our exports of the order of almost \$800 million on the first half.

Mr. MANN. Our net position improved, Senator. This is the important thing in trade.

Senator GORE. Well, of course our automotive exports to Canada are large. Canada's exports to us of woodpulp and paper are very large. They have the resources and it is an efficient industry. We have the resources and an efficient automobile industry, and if duty remission plans are to be instituted against the United States on those parts of its industry that are efficient and competitively successful, then if such a tariff were to be initiated the United States might look to other things, to things other than the automotive industry.

I would hate to see the United States and Canada in such a conflict, but in this instance Canada initiated it, and by this agreement the United States is succumbing to it and going even further, giving governmental sanction to it, which I think is contrary to our trade policy developed by the Cordell Hull reciprocal trade program and followed by this country for many years.

Mr. MANN. Well, Senator, had we gotten into a trade war—

Senator GORE. We were in one. Let's don't put it "if." We were in one. The duty remission plan was.

Mr. MANN. Excuse me, Senator. I thought your point was that we should have imposed countervailing duties. I thought that was your point a moment ago. I misinterpreted what you were saying.

Senator GORE. I haven't said we should. I am not sure that I wouldn't be prepared to say so if Canada persisted.

Mr. MANN. All I am really trying to say, Senator, is that had we gotten into a blow and counterblow situation, we would have lost a trade in automotive products in Canada which nets us \$500 million a year, and which is of great help to us in our balance of payments, and this doesn't seem to me to make much sense tradewise.

Senator GORE. So instead of that we took a powder and now propose governmental sanction to what Canada says is a continuation of the plan, and a further expansion of the Canadian automotive industry.

Mr. MANN. Senator, the agreement introduces very substantial modifications. We can list those for you, very substantial modifications in the situation which existed before the agreement was signed, so that it could not be accurately said to be a continuation of the situation existing before the agreement was signed.

Senator GORE. Well, actually, I think, Mr. Secretary, on balance that it makes it worse. I think I will be able to show that as we proceed. But I will desist and let you complete your statement.

Mr. MANN. Most important, the imposition of countervailing duties would not have reached the heart of the problem—the fact that the automotive industries of our two countries are a single North American industry, divided by artificial economic barriers—the Canadian tariff and other requirements on the one hand and the U.S. tariff on the other.

Three features of the agreement are particularly important.

First is its long-term purpose to liberalize automotive trade and to develop conditions in which market forces may operate effectively to attain the most economic volume of investment, production, and trade.

Second is the immediate action it calls for. The Canadian Government agreed to eliminate all duties on U.S. automobiles and original parts imported into Canada under the terms of the agreement.

For our part, the U.S. Government agreed to seek prompt enactment of legislation authorizing duty-free treatment for such products of Canadian origin.

Third is the undertaking by the two Governments to conduct, no later than January 1, 1968, a comprehensive review of progress toward the objectives of the agreement.

The agreement reserves the right of both parties under part II of the General Agreement on Tariffs and Trade (GATT), including escape clause actions. The agreement also provides that 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. The parties may accord to other countries access to their markets on similar terms. The agreement is intended to continue indefinitely but may be ended by either party on 12 months' written notice.

The agreement came into provisional effect on the date of signature and will come into definitive effect after appropriate action is completed in the legislatures of both countries.

Senator DOUGLAS. Mr. Secretary, would you permit me to ask a question on that point?

Mr. MANN. Yes, sir.

Senator DOUGLAS. Is it your position that this will only come into effect after there has been ratification by the American Congress and the Canadian Parliament?

Mr. MANN. The agreement was put into effect immediately by the Canadian Government. It will not go into effect as far as the U.S. Government is concerned until the Congress has acted. If the Congress—

Senator DOUGLAS. Are duties being collected on the American side of the border?

Mr. MANN. The duties are being collected; yes, sir.

Senator DOUGLAS. On Canadian automobiles?

Mr. MANN. Yes, sir; and are being—

Senator DOUGLAS. And on Canadian parts?

Mr. MANN. Yes, sir.

Senator GORE. Are you sure of that?

Mr. MANN. Yes, sir; and they are put in bond.

Senator GORE. That is contrary to what the State Department told me 2 days ago.

Mr. MANN. Well, if I may finish, my understanding is that this bill, if approved by Congress, this agreement, if approved by Congress, will be retroactive and the duties which are now being held in bond or in escrow will be remitted to the Canadian exporters, Senator.

Senator DOUGLAS. I see. The duties are held in bond.

Mr. MANN. Yes, sir.

Senator DOUGLAS. Are collected from the importers?

Mr. MANN. From the importers; yes, sir.

Senator DOUGLAS. And if the agreement is ratified will be retroactively returned?

Mr. MANN. Yes, sir.

Senator DOUGLAS. Thank you.

Mr. TREZISE. I think, Senator, to make it sure, I don't know whether they are physically collecting the duty but there is an account.

Senator DOUGLAS. What is meant by collecting but not physically collecting?

Mr. TREZISE. Well, the importer owes the money.

Senator DOUGLAS. What?

Mr. TREZISE. The importers are liable for the money.

Senator DOUGLAS. They don't pay the money.

Mr. MANN. They are liable for it.

Senator DOUGLAS. But do they pay it? I don't want to appear to be brutal in my questioning, but I don't think the first answer to this question was fully responsive. I want to ask now: Have the duties been paid into the U.S. Treasury during this intervening period between the signing of the agreement and the present time?

Mr. MANN. Senator, a Treasury representative is here who knows more than I do about the techniques of collecting duties and how they do it.

STATEMENT OF FRED BOYETT, ASSISTANT DEPUTY COMMISSIONER, BUREAU OF CUSTOMS, DEPARTMENT OF THE TREASURY

Mr. BOYETT. I am an Assistant Deputy Commissioner with the Bureau of Customs and I can assure the Senator we are collecting the duties physically in dollars and cents. There is a provision whereby liquidation of the entries on this merchandise is being suspended until after Congress considers the measure.

Senator DOUGLAS. What do you mean "liquidation being suspended"?

Mr. BOYETT. There is not a final decision as to whether the duties have been collected properly until after the measure has been considered. It isn't—

Senator DOUGLAS. What is the meaning of that gobbledegook?

Mr. BOYETT. Sir?

Senator DOUGLAS. What is the meaning of that gobbledegook?

Mr. BOYETT. Well, a customs entry is an estimate by the importer of his obligation to the Government. Until the merchandise has been examined by customs and all the laws have been satisfied the entry is not considered finalized or liquidated.

What we have done here is to collect the duties on the automobiles under the existing tariff.

Senator DOUGLAS. In dollars and cents?

Mr. BOYETT. In dollars and cents; yes, sir, and suspending liquidation on the entries of this merchandise.

Senator DOUGLAS. On the which?

Mr. BOYETT. The entries; that is, on the document, the estimate which the man has paid in.

Senator DOUGLAS. It is still not clear.

Mr. BOYETT. When an importer comes to a customhouse he brings to him an entry document and the check. The entry document is his estimate, and the check is in fulfillment of that estimate. Let's assume that you are entering an automobile. You would present the collector of customs with the entry document and the check. Now, the collector of customs then holds this entry document and your check, as far as you are concerned, the check is cashed by the U.S. Government, but the entry document is not finalized legally until after this measure here is considered, by order of the Secretary of Treasury. There was an order by the Secretary of the Treasury to this effect published in the Treasury Decisions back in January of this year.

Senator DOUGLAS. How much money has been collected?

Mr. BOYETT. Every cent that the Tariff Act provides for.

Senator DOUGLAS. Have you cashed the checks?

Mr. BOYETT. Yes, siree; every check is cashed.

Senator DOUGLAS. Why don't you make a corresponding entry on the other side? Why do you operate with single-entry bookkeeping.

Mr. BOYETT. We have deposited the money in the bank but, of course, the Government would have the obligation to refund the money should Congress decide to, in effect, make this agreement retroactive to January. The purpose of suspending it is in anticipation or in proposition of retroactive enactment, you see.

Not clear?

Senator DOUGLAS. Still not clear but we will postpone that.

Who pays the interest on it?

Mr. BOYETT. Who pays the interest? What interest is there, sir?

Senator DOUGLAS. Who would pay the interest on any refund?

Mr. BOYETT. There isn't any interest due. If the importer pays a check for 6½ percent on an automobile, where is any interest due?

Senator DOUGLAS. And the Government keeps the money, let's say, for a year before the bill passes.

Mr. BOYETT. Yes, sir. There isn't any refund of interest on it.

Senator DOUGLAS. No interest?

Mr. BOYETT. No, sir. There wouldn't be any refund of interest.

Senator DOUGLAS. Thank you.

Mr. MANN. Shall I continue, Senator?

The CHAIRMAN. Yes.

Mr. MANN. Secretary Connor will explain the economic effects of the agreement in more detail.

I should like to say now only that, in my judgment, it is one of the most significant international economic initiatives that we have taken in a number of years. Canada has laid aside the alternative of an autonomous automotive industry and has joined with us to create a rationalized and integrated North American automotive industry. Duplica-

tion will be avoided. Production costs will be reduced. Canadian subsidiaries of U.S. companies will be able to produce longer runs of fewer models, lower their prices, and expand their markets. The grave uncertainties that our automotive products manufacturers faced in their trade with Canada are resolved. The economies of both countries will benefit.

At the same time we have ended a dispute which could have led to serious commercial injury to our automotive trade; or our balance-of-payments situation—and more. As President Johnson said in his letter to the Senate:

We were faced by the prospect of a wasteful contest of stroke and counter-stroke, harmful to both Canada and the United States, and helpful to neither. Our broader good relations with our Canadian friends would have suffered strain.

The principal provisions of the legislation before you to carry out the agreement may be simply stated:

First, it would authorize the President to remove duties on all Canadian automotive products covered by the agreement—as Canada has already done for such U.S. products—retroactive to last January. The President would also be authorized to include other automotive products that may be subsequently developed.

Senator DOUGLAS. Mr. Mann, may I ask you another question?

Mr. MANN. Yes, sir.

Senator DOUGLAS. Is the duty included on all automotive products including parts?

Mr. MANN. Original parts but not replacement parts. All original parts but not replacement.

Senator DOUGLAS. Suppose the Canadian manufacturers, and I believe they are identical with the four American companies, must they sell parts to an American independent parts dealer in order to get a remission of duty or must they sell simply to the four companies in the United States?

Mr. MANN. They can sell to anybody I am told, Senator.

Senator DOUGLAS. Sell to anybody.

Mr. TREZISE. Yes, sir, as long as they are destined for use in a new automobile they can be sold to any importer.

Senator DOUGLAS. What about replacements?

Mr. TREZISE. Replacement parts are not covered under the agreement or the legislation.

Senator CURRIS. Will the Senator yield?

Does this legislation in anyway affect the manufacturer of automotive parts who sells his total product as replacement parts?

Mr. TREZISE. It does, sir, in one respect. When the Canadians relinquished their remission plan as of last January on the signature of this agreement, the provision in their remission plan which had the effect of giving an incentive for the export of replacement parts to the United States ended, and in that respect the replacement industry in the United States has improved its position.

Otherwise, I think the legislation and the agreement have no effect.

Senator CURRIS. You mean as part of this agreement, Canada gave up something that was in her favor on exporting into the United States replacement parts?

Mr. TREZISE. Yes, sir. Canada gave up—

Senator CURTIS. In other words, there is no tariff concession in this legislation or in this agreement affecting the parts that are used for replacement?

Mr. TREZISE. That is correct, sir.

Senator CURTIS. Now, as to the definition of a replacement part, does it actually have to be used as a replacement part or is it something that could have been made for the original assembly of the automobile? Then where does it fall?

Mr. TREZISE. Well, the question, Senator, I believe, the question of the certification—these are identical things in many cases but if it is destined for the production of a new automobile it is an original part.

Senator CURTIS. I will just ask one question and then I will give it back to you because it is your witness.

In other words, you follow the specific shipment into this country.

Mr. TREZISE. In practice, in effect, yes.

Senator CURTIS. Yes.

And I don't know where spark plugs are made or fan belts or this or that, but if they are made in Canada and if they come in here for assembly in new automobiles you follow through to see that is what they are used for.

Mr. TREZISE. Well, the Customs Bureau does.

Senator CURTIS. Yes, by "you" I mean the Government. But those parts or any other parts, that are sold by garages and filling stations and department stores and other places, whether they be filters or fan belts or any of the multitude of things, they get no concession under this legislation or under the agreement, unless the specific shipment is followed through and proof is established that it went into the original assembly of a new automobile, is that correct?

Mr. TREZISE. That is correct.

Senator CURTIS. I thank you.

Senator DOUGLAS. Well, I was going to ask a question on the same point that the Senator from Nebraska touched on, namely, these parts are identical, how can you differentiate between parts intended for the original automobile and parts intended for replacement?

Mr. TREZISE. Well, sir, this is really a question, I believe, for the Customs Bureau, but as I understand it, this is a question of certification on the part of the importer who is subject to very heavy penalties if he falsely certifies.

Senator DOUGLAS. If you say it is a question for the Customs Bureau, perhaps we can ask them to testify. They apparently have a man here who just testified. How do you differentiate between automobile parts intended for the original vehicle and automobile parts intended for replacement since the parts themselves are identical?

Mr. BOYETT. Sir, they would be physically indistinguishable.

Senator DOUGLAS. That is right.

Mr. BOYETT. No one could say that this sparkplug is going to go into a new automobile except the person who is responsible for the importation, and on that basis customs would ask the importer "Is this going to go into a new automobile or is it going to be sold as a replacement part?"

At that point the importer has to make a declaration, he either declares it to be for a new car, and it comes in free or he declares it to be a replacement part and it is subject to its regular duty.

If he should declare falsely, there are penalties for seizure of the entire shipment.

Senator GORE. Then this would mean, I take it, that if General Motors wanted to import a part it would be free of duty.

But if a smaller businessman—

Mr. BOYERR. No, sir.

Senator GORE (continuing). Running an automobile parts concern wanted to import the same part, then he would have to pay the tariff.

Mr. BOYERR. The status of the importer, whether he were General Motors or General Store wouldn't make any difference to the Collector of Customs. The importer, General Motors, would have to make the same declaration that the part was going to be incorporated in a new automobile, that any other importer would be required to make.

Senator GORE. All right. Let's stop right there.

Mr. BOYERR. Yes, sir.

Senator GORE. If the importer certifies that the part is going to be used by one of the big three or someone else.

Senator DOUGLAS. Big four, put American Motors in.

Senator GORE. It is not a very big one, but I am willing to put it in.

Senator DOUGLAS. It is a good company.

Senator GORE. If the importer certifies that this axle is to be used in a new automobile, what will be the duty on it?

Mr. BOYERR. It will be free, sir.

Senator GORE. It will be free? If the importer certifies that the axle is to be used by some concern selling parts for an ordinary citizen to use in repairing his automobile, what would be the duty on it?

Mr. BOYERR. Eight and one-half percent.

Senator GORE. Then my statement, the answer to my question, when you follow it to its end use is correct, it seems to me, that this agreement provides that if the automobile manufacturing concerns want to import parts they come in duty free, but the tax remains on the ordinary citizen who wants to repair his automobile, and to the small business people who are trying to make a living selling automobile parts?

Mr. BOYERR. Well, sir, I didn't follow your illustration to say that at all. It seemed to me you said if General Motors declared the article to be used as a replacement part they would pay duty on it just like anybody else.

Senator GORE. How many replacement parts does General Motors use in the manufacture of automobiles?

Mr. BOYERR. Well, they have to guarantee all of their dealerships with replacement parts of every item on an automobile.

Senator GORE. Well, let me ask my question, state my question in a little different way.

If an automobile parts supply store or concern imports automobile parts from Canada and states that they are there for the purpose of sale to garages and citizens in the United States for replacement and repair of vehicles, what will the duty be?

Mr. BOYERR. Generally, 8½ percent on parts.

Senator GORE. If the importer, whoever he may be, states that the parts which are imported are to be used by the Big Four in the manufacture of automobiles, what will the duty be?

Mr. BOYETT. If they are to be used for incorporation in a new automobile, they will be free, but it wouldn't matter whether the importer were the same importer operating under another contract or whether he assembled automobiles himself. He might be an assembler. There are several besides the Big Four.

Senator GORE. Well, I wanted a short answer to my question.

Mr. BOYETT. I would say they would be free, sir.

Senator GORE. The answer to my question is "free"?

Mr. BOYETT. On the basis of a declaration of "for incorporation in a new automobile."

Senator GORE. This is done in the name of free trade.

Thank you, Mr. Chairman.

Mr. MANN. May I suggest that we ought to look not only at the trade from Canada to the United States, but the opportunities which this gives to American manufacturers of original parts to increase their sales in the Canadian market due to the lowering of the duty. This is what trade is all about. It gives the Canadians a greater opportunity to sell in this market, and it gives us a greater opportunity to sell in that market: a commensurate opportunity.

Senator GORE. There you are in error when you say "commensurate opportunity." The very purpose of this agreement is to avoid a commensurate opportunity for the United States.

Mr. MANN. We disagree on that, Senator.

Senator DOUGLAS. These words are difficult to handle but I would like to ask about a completely symmetrical agreement on American exports to Canada and Canadian exports to the United States.

Is the waiving of the duty limited to those parts which are used in the making of the vehicle, or does it also extend to replacements? In other words, is it a precisely parallel relationship?

Mr. MANN. Yes, sir; it is limited in both cases, Senator; both directions. It is exactly the same.

Senator DOUGLAS. And Canada uses the same methods of determining whether a part is for original construction or replacements?

Mr. MANN. That is my understanding; yes.

Senator GORE. Mr. Secretary, doesn't it also mean that if any one of our Big Four automobile plants has a parts manufacturing subsidiary in Canada or hereafter establishes more such facilities, that they can import those parts into the United States duty free?

Mr. MANN. If they are for original equipment, that is correct.

Senator GORE. Then—

Mr. MANN. Replacement parts, as we have said several times, are really not covered by the agreement as far as either country is concerned.

Senator GORE. Of course, the agreement covers parts to be used by the automobile companies in this country. That is the very point. Yet you call it something to stimulate free trade.

Let me ask you if the wages of automotive workers in Canada do not average about 50 cents per hour less than wages in the United States.

Secretary WIRTZ. Was your figure 50 percent?

Senator GORE. 50 cents per hour.

Secretary WIRTZ. On an hourly basis, Senator, they would be presently running about 25 to 50 cents an hour less in Canada than in the

United States. The comparison, to be complete, would have to include for your purposes the costs per unit, labor costs per unit which are higher in Canada. So viewed from the standpoint of hourly earnings, they are lower in Canada. Viewed from the standpoint of unit labor costs, they are higher.

Senator GORE. Mr. Secretary, we will come later to the unit costs.
Secretary WIRTZ. All right.

Senator GORE. The purpose of my question here was to establish that wages are lower in Canada than in the United States. That is true, is it not?

Secretary WIRTZ. The figure is, I think the fairest figure would be 25 to 50 cents an hour over the industry as a whole.

Senator GORE. Thank you, Mr. Chairman.

Mr. MANN. Senator, I would like to say this, that in entering into any trade agreement, the experts do their best to determine whether this will benefit our people, this will benefit our trade.

Senator GORE. Your experts in this case must have been the Big Four then.

Mr. MANN. No, sir.

Senator GORE. There is some difference between General Motors and the United States.

Mr. MANN. What I was about to say, Senator, or trying to say, is that there is a provision in the agreement for review of the effects of this agreement on January 1, 1968.

Senator GORE. But there is no provision in the agreement to terminate it, is there?

Mr. MANN. Yes, sir; I am coming to that, if I can just finish this, sir. And it is our hope in this first review, and we hope in subsequent reviews, that we can expand the area of this agreement to include replacement parts and possibly other areas in which it does not presently cover.

There is also a provision in the agreement allowing either country to terminate the agreement on 12 months' notice. So that if all of the estimates and all of the calculations are wrong, no irreparable damage has been done.

I simply wanted to make that point.

Senator CARLSON. Mr. Secretary, before you proceed, I have not paid any attention to this treaty and this is the first information I had of it and it is quite an education, I assure you. But I have the President's letter submitted to the Speaker of the House on March 31, 1965, and I want to read one or two sentences for clarification. In the President's letter, he states this:

This agreement resolves a serious difference which existed between Canada and the United States over our automotive trade.

Would the Secretary tell us what our problem was?

Mr. MANN. Yes, sir.

Canada, like many other countries, Senator, had embarked on a program of what is usually referred to as import substitution. It was a double-barreled program which you find throughout Latin America, with which you are familiar, where governments require arbitrarily that cars will not be imported on the one hand, and, on the other, that automobiles used in the country must be manufactured there and must have 50, 60, 70 percent, or even higher domestic value added. This

means you have got to make 60 percent of the parts in Mexico or Argentina today, for example, or Brazil, and the import duties, where there are duties, and usually quotas as well, are almost prohibited. So the result of this is to, by law to, force the development of an automotive industry.

Now, this is not limited to automotive industries. It is done in other industries, too. It is called the import substitution plan and is justified usually on balance-of-payments grounds.

In addition to that kind of requirement, Canada had this duty remission scheme which we objected to in this country. It encouraged by remitting duties on imports, the exports of Canadian products into this country, and this faced us with the problem of where we would impose countervailing duties to offset that. This is what we mean by stroke and counterstroke, blow and counterblow. And this would have led, had this been followed out to its logical conclusion, to a diminution in a trade which has been very beneficial to this country.

As I said earlier, it gives us net \$500 million a year. In that sense, it is a breakthrough which we hope will eventually serve as a model for other countries where we have great difficulty in exporting automobiles abroad.

Senator CARLSON. In other words, based on your statement it should make for freer trade between the countries?

Mr. MANN. Yes, sir, we believe that; yes, sir.

Senator CARLSON. And then a second statement that I read in the President's letter is this:

The Canadian Government revoked its controversial plan and on January 18 reduced all relevant duties to zero.

Now, this letter was written March 31, 1965.

What action had they taken before this message was sent to the Speaker?

Mr. MANN. They, in effect, encouraged the exports of their products, automotive products, into our market by giving a remission of duties on those companies which exported to our market and also imported into their market. You got a remission of import duties as a reward for expanding your—their exports to our market.

Senator CARLSON. I want to say very frankly I am not opposed to encouraging free trade, not necessarily free trade but extensive trade with our neighbors to the north. I am a little concerned about actions taken by the executive branch of the Government which, of course, were not entered into by Canada but which of course really vitally affects our trade in the world markets and benefits Canada and that is through an Executive order which requires that 50 percent of wheat sold for dollars into the world market be carried on American bottoms which has cost us the sale of, I am confident, of probably 200, 300, 400 million bushels of wheat.

Can you give us any assistance on that one?

Mr. MANN. I understand I am to testify before the other committee you sit on, Senator, next Friday.

Senator CARLSON. We will go into that, then.

Thank you very much.

Mr. MANN. The principal provisions of the legislation before you to carry out the agreement may be simply stated:

First, it would authorize the President to remove duties on all Canadian automotive products covered by the agreement—as Canada has already done for such U.S. products—retroactive to last January. The President would also be authorized to include other automotive products that may be subsequently developed.

Second, the President would be authorized to carry out agreements similar to the Canadian one with other countries if he should determine that such agreements would afford mutual trade benefits.

Third, the President would be authorized to carry out an agreement with Canada for the reduction or removal of duties on automotive replacement parts. We were unsuccessful in our efforts to include replacement parts in the coverage of the present agreement, and it is desirable to have this authority available if the opportunity arises to use it.

If we conclude agreements with other countries, similar to the Canadian one, the President would also be authorized to agree with such countries on the mutual reduction of duties on replacement parts.

Fourth, the legislation includes detailed provisions for adjustment assistance in case any American firm or group of workers should suffer dislocation as a result of the agreement. Secretary Wirtz will discuss these provisions with you, but I do want to emphasize the support of the entire executive branch for them.

Fifth, the legislation provides for the modification of our tariff schedules and lists the automotive products on which the duties are to be eliminated.

Finally, the legislation provides for an annual report to the Congress concerning the implementation of the legislation.

The agreement, and the legislation to implement it, are, as I have said, major steps forward. They will not, however, immediately free the United States-Canadian automotive industry of all trade barriers. The Canadian industry is about one-twenty-fifth the size of our own, and the Canadians have understandably insisted on transitional protections until their industry can adjust its operations to the vastly larger North American market.

Under the Agreement, Canada accords duty-free entry to automobiles and parts only when they are imported by or on behalf of manufacturers and those manufacturers must maintain their assembly operations at existing rates. Furthermore, because the Canadian replacement parts industries are particularly vulnerable, replacement parts are not at this time covered, although we hope that such coverage will be possible in the years ahead.

Canada also wanted to be certain that its automotive industry would participate in the increase in the rapidly growing Canadian market and in the additional growth in its market that will be stimulated by the agreement. Therefore, Canada asked each of the Canadian producers for a letter concerning their plans for expanding production in Canada.

The U.S. Government was not a party to the letters but in the course of the intergovernmental negotiations, the Canadian Government informed us of their general terms. In these letters each company undertook to increase its production in Canada by a stated amount over a 4-year period. When the four major companies testified before the House Ways and Means Committee last April they submitted their

letters for the public record. As I have stated, the agreement provides for a comprehensive review of all aspects of the United States-Canadian automotive trade no later than January 1, 1968. We expect that during the course of this review it will be possible to agree on further steps to make our automotive trade with Canada free of restrictions. Finally, I should say a word about the relation of the agreement and the implementing legislation to other countries. The Canadian arrangement deals with a unique situation. Its purpose is to make possible a single North American automotive industry and it goes far beyond a typical reduction of tariffs in a trade negotiation. We did not, therefore, think that the agreement's provisions should be automatically available to other nations. Such an action would be unfair to the United States since many other automobile-producing nations not only have much higher tariffs but also have nontariff barriers that seriously impair U.S. sales. The agreement does provide, however, that—

access to the United States and Canadian markets * * * may by agreement be accorded on similar terms to other countries.

We have discussed the agreement in some detail with our GATT partners and have made clear that we do not expect it to divert trade or otherwise change the competitive positions of third countries in the North American market. The GATT expressly provides for waivers of the most-favored-nation requirement in exceptional circumstances and we believe that the United States-Canadian agreement qualifies fully for such a waiver. We are, therefore, confident that we will reach a satisfactory understanding with our GATT partners on this matter.

In concluding, let me recall to you the words of the President in proposing the legislation to carry out the agreement with Canada. The President said:

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.

The CHAIRMAN. Thank you very much.

Secretary CONNOR. Mr. Chairman, and members of the committee, I am pleased before you—

Senator DOUGLAS. Mr. Chairman, before you continue, may I ask Secretary Mann some questions? I am sorry, Mr. Secretary.

Secretary CONNOR. That is perfectly all right.

Senator DOUGLAS. Mr. Secretary, may I ask if the automobile manufacturing industry in the United States and the automobile manufacturing industry in Canada is conducted by identical companies?

Mr. MANN. I believe that 90 percent of the Canadian manufacturers of automobiles are subsidiaries of U.S. firms.

Senator DOUGLAS. Does that include all four or only the so-called Big Three?

Mr. MANN. That includes all four.

Senator DOUGLAS. All four.

American Motors has a subsidiary?

Mr. MANN. Yes, sir.

Senator DOUGLAS: Do the—perhaps the Secretary of Commerce should answer this question—Do the Canadian subsidiaries primarily specialize in parts?

Secretary CONNOR: No, sir. Full assembly and that is covered in my testimony.

Senator DOUGLAS: I see. Well, I'm sorry. I didn't notice that. Now, I think perhaps I should save this question and the following questions for the Secretary of Commerce, but I will just throw out this point as an adumbration of further question. Is there an implicit agreement between the companies that in the future they will build up the manufacture of parts in Canada which will then have free access to the American markets? I haven't had time to analyze the letters of the various companies but I understand they pledged themselves to agree to expanding production in Canada, is that true?

Secretary CONNOR: Yes, sir.

Senator DOUGLAS: Now, they can't expand production in the field of automobiles can they, because the American car plant is much more efficient than the Canadian manufacturer of cars because as you say we have a wider market in which to sell and we can take advantage of the division of labor so if the Canadian industry expands it can only expand in the parts industry, is that true?

Secretary CONNOR: No, sir; that is not true and I will cover that.

Senator DOUGLAS: I see you are prepared.

Senator SMATHERS: Mr. Chairman, may I ask Secretary Mann a question?

Senator DOUGLAS: If you don't mind, I still have another question, which is on the broader issue than on trade matters.

Senator SMATHERS: Excuse me.

Senator DOUGLAS: Ever since the time of Secretary Hull, Mr. Mann, as the Senator from Tennessee has pointed out—I think he comes from the same region Secretary Hull came from—we have held to our interpretation of the most-favored-nations clause; namely, that favors granted to one country should be extended automatically to all countries which do not discriminate against the United States; is that correct?

Mr. MANN: That is true.

Senator DOUGLAS: That was embodied in GATT under certain modifications which have been followed by that organization since then.

Now, that is a worldwide ideal, and modifications of that have been introduced in the customs unions which have been developed; notably, the European Common Market and the Central American Common Market.

Here you eliminate tariffs within the customs union but maintain tariffs outside. Now, it may well be that this is a step toward a wider expansion of the market and development of trade, and I take it this is in the same family of agreements. But does this mean that the United States has largely abandoned, where it is convenient to it, its faith in the most-favored-nations clause and is instead ready to move to customs unions agreements with a limited number of countries?

Mr. MANN: No, sir; I don't think we have reached any such decision.

We are aware that there are many exceptions to the most-favored-nation rule that you mentioned, not only the Common Market in Europe, but also the outer seven, EFTA, the British Commonwealth, and the

Central American Common Market and the Latin American Free Trade Area.

Senator DOUGLAS. Which hasn't amounted to very much. Central America has; yes.

Well, now, this is a very grave question of foreign policy, and of trade policy. I am inclined to believe that your decision in this matter is correct but I think the Senator from Tennessee is also correct when he says that this is a departure from the principles which we thought we were putting into effect when we passed the Kennedy Trade Expansion Act.

Senator CARLSON. Will the Senator yield at that point?

Senator DOUGLAS. Yes.

Senator CARLSON. I was interested in that same thing. You say you have discussed this agreement in detail with our GATT partners. How long have you been working at this or is there any chance of getting an agreement? You say you think we will, but so far we haven't. How long have you been meeting with them?

Mr. MANN. Well, since before I arrived on the economic scene.

Mr. TREVISE. I think, Senator, we began consulting in Geneva about a little more than—a little less than a year ago, last October. But since that time we have made three visits to Geneva to talk to the GATT contracting parties. We have not, of course, undertaken any formal proceedings thinking that was improper and inappropriate until Congress had given us the authority to proceed with the agreement.

Senator CARLSON. Well, it concerned me when I heard the Secretary read this statement because if you had been in—had been in consultation with them for 10 or more months we ought to have some indication even before we approve it. I appreciate that final consideration probably should not be given but this to me is an important part of this entire proceeding, and I think we ought to have some assurance we are not violating some treaties that we have already made.

I think the Senator from Illinois has raised a very good point.

Senator GORE. Will the Senator yield?

As a matter of fact, this is in contravention of the act of Congress. It will serve to undercut our negotiators in the Kennedy round in conferences now underway. This bill, if passed, would not only authorize, legitimize, a bilateral agreement for an international cartel, but it also authorizes the President to enter into such agreements with any number of other countries. If that is not contrary to the Hull reciprocal trade program, the very philosophy of it, then I don't understand it.

And moreover, this agreement is entered into without any authority from Congress.

Senator CURTIS. Mr. Chairman—

Senator CARLSON. Before I concede, Mr. Talmadge and Mr. Ribicoff had breakfast with our negotiators over in Geneva, Ambassadors Block and Blumenthal, and we are concerned with our trade agreements with the economic—with the Common Economic Communities and Common Market and I do think we ought to look this over.

Mr. MANN. Senator, may I simply say this, that this is a unique agreement to cover a unique situation. The taste in automobiles in

Canada and the United States, that is, the preference for American-type automobiles as distinguished from European types, is identical. The industries, as I said earlier in Canada, are over 90 percent subsidiaries of American firms.

This will rationalize and make much more efficient an industry which was divided only by very artificial barriers, reduce the cost, we think, of automobiles in Canada by enabling Canadian producers to reduce the number of models that they produce, for example, one way of gaining efficiency, and we are confident, based on discussions we have had with other automobile exporting nations that they understand that this does not really cut across their markets, either in the United States in Canada, and we are confident that we will get the same kind of waiver under GATT that has been obtained in all these other arrangements that have been talked about.

Now, where we go from here, that Senator Douglas asked about is a policy question and we really haven't crossed that Rubicon yet.

But certainly our relations with Canada, our trade relations with Canada, are very intimate, and very large, and of very rare importance to both countries.

Senator DOUGLAS. Mr. Mann, I would say that if we are not able to conclude a satisfactory agreement with the Common Market under the Kennedy round, we may be driven to an expanded customs union with Canada and with the northern Latin American countries.

But the question is whether we should do this in advance of finding out whether or not we can reach an agreement under the Kennedy round.

Now, I think that European countries have stalled very markedly in the Kennedy round. I have expressed myself on several occasions on the role which France has played which I think is a very poor role. But we lay ourselves open to charges of inconsistency if, on the one hand, we make these agreements, customs union agreements with Canada, and then try to break down the external tariffs of the Common Market.

Senator GORE. Will the Senator yield?

Senator DOUGLAS. Yes, I will be glad to yield.

Senator GORE. A customs union would be better than this. Under customs union practice prices are reduced and passed on to consumers. But by this agreement, we are deliberately holding up prices to the consumers and going contrary to international trade practices by guaranteeing greater production in the areas of least efficiency. This is not free trade. This is the very antithesis of it. This is restriction.

Mr. MANN. Senator, I don't want to appear argumentative. I realize there is room for differences of opinion on these things, but our estimate is that the Canadian industry will become more efficient under the spur of competition from the U.S. industry, that they will be able to effect economies of operation on a very large scale by reducing the number of models they produce.

That they will be able to reduce the cost of the product to the Canadian consumer and this will result in an expanded market which will be available to us as well as to the Canadian industry.

Senator GORE. Any reason why they couldn't do that without this agreement?

Mr. MANN. As I said earlier we just believe basically in the validity and strength of our competitive position. We think our automotive industry is one of the most efficient in the world and frankly the Canadian Government, I think, had more reservations than we did about being able to survive in this kind of competition, and as I say, the proof of that is that our balance in this industry alone, favorable balance, is a half billion dollars a year in trade.

Senator GORE. I agree with you completely about the efficiency of the U.S. automotive industry.

But instead of proving your point that proves mine. You are holding up and giving preference to a lesser efficient and a lower wage industry and particularly in the letters between the automobile companies and Canada, which this agreement seems to endorse.

Mr. MANN. Well, the whole theory of competition is that an industry becomes more efficient when it must under the spur of competition, and they will have this spur, they will be exposed to competition from the United States.

Senator GORE. What competition is there between a General Motors plant in Detroit and a subsidiary owned by General Motors in Canada? Particularly when you give by this agreement, give permission, for General Motors and the other "big three" to manufacture all of its parts, certain parts, of its new automobiles in Canada, and import them duty free into the United States?

Mr. MANN. Well, we think the incentive to produce and export from the United States will be here in the future. This is part of our—

Senator GORE. That doesn't answer my question, though.

Mr. MANN. Well, Senator, we are going to get in, I think the Secretary of Commerce will, and certainly the automotive industry itself, which will be here before the committee can speak to some of these points better than I can, but all I am saying is that in general we have every confidence that our trade, our export trade, with Canada will increase as a result of this, notwithstanding the letters of intent or letters of understanding or undertaking which you refer to.

Senator GORE. Well, that may be all you can say but that doesn't justify this agreement. Did you advise the President to sign this agreement?

Mr. MANN. Senator, I think that Secretary Rusk did. Actually, I think I was in charge of Latin American affairs when the agreement was signed and I have only been in charge of economic affairs—I would have recommended it, Senator. The answer to your question is "I did not. But I would have recommended it."

Senator SMATHERS. May I ask a question right there, Mr. Chairman?

Mr. Secretary, who initiated this agreement at the outset? How did this get started? Was this initiated by the automobile companies?

Mr. MANN. I am going to ask Mr. Trezise, who was in on the negotiations—I was not—to speak to that, Senator.

Mr. TREZISE. I think the story, Senator, in the briefest terms is that we had been having this controversy with the Canadians about their so-called duty remission scheme. In April of 1964 when the Cabinet Ministers met there was discussion of this problem and a suggestion was made that we should have consultations about the issue.

Senator SMATHERS. And this is the Canadian Ministers and who representing us?

Mr. TREZISE. At that meeting Secretary Rusk and Under Secretary Ball were present as well as Secretary of Commerce Hodges and Secretary Dillon and so on. I think, if my memory serves, it was Under Secretary Ball who suggested we should have conversations. Later in the year, in the course of the summer, the Canadians came back and recalled that suggestion and suggested we begin conversations, and from then on they proceeded through the balance of the year here and in Ottawa.

Senator SMATHERS. And the Canadian Government obviously is very much for this agreement. They have executed it; is that correct?

Mr. TREZISE. Yes, sir, the Prime Minister signed the agreement and it is the policy of his government, I believe.

Senator SMATHERS. What would be the effect insofar as you can foresee, if the U.S. Government did not sign the agreement?

Mr. TREZISE. I think the Canadians would then restore their pre-existing duty structure and begin consideration of a new policy on automobiles. I think this would follow necessarily.

Senator SMATHERS. If they restored their previous policy, what does that do to the American automobile industry and what does it do to their automobile industry?

Mr. TREZISE. Well, I think, Senator, this is, of course, speculative, I think it would be very disruptive for our industry which, as you know, operates on both sides of the border, and it would introduce a new element of uncertainty which would be very poor for the well-being of that segment of the industry.

Senator SMATHERS. Would, in your judgment, the fact that this agreement had not been signed, would it result then in a more competitive situation as indicated by some of the questions which have been asked here, and because of the competition, where the general public would end up with better cars and cheaper cars?

Mr. TREZISE. I think on the contrary, sir. I think had the agreement not been signed, and had we entered into what the President described as stroke and counterstroke with the Canadians, the end result would have been a less—a more protected Canadian industry and by that definition, a less efficient Canadian industry, with the costs falling in considerable measure on the American firms and American workers.

Senator SMATHERS. So then you are stating that if we do not—in your judgment—enter into this agreement, rather than there being more competition, that there will be actually less competition, more protection certainly for the Canadian automobile industry and thereby less efficiency, and less benefit to the consumer as well as the consumer here, is that your statement?

Mr. TREZISE. I think that is correct, sir.

The CHAIRMAN. Senator Curtis?

Senator CURTIS. Mr. Chairman, the Senate is in session, so we may end abruptly here. Also they are considering the farm bill and I have to leave. I wonder if I might have permission to submit to these Government witnesses some interrogatories in writing to get in your hands during the day. I might state that these are submitted with the understanding that they would be incorporated in your first

revision of your remarks so we would have them in executive session when we consider this.

I might say they do not go to the question of tariffs or trade concessions. I have some questions called to my attention concerning the unemployment compensation features, and my questions will relate to some language in the House bill, which is the first paragraph on page 12 of the report of the Committee on Ways and Means.

My questions will relate to what is the meaning of that, some hypothetical questions, and also some questions in reference to unemployment compensation and related benefits as provided under the Trade Expansion Act of 1962, that are involved here.

I will submit them in writing through the staff and get them in your hands today, if I may have that permission, Mr. Chairman.

The CHAIRMAN. Without objection.

(The questions and answers referred to follow:)

1. Question. The first full paragraph on page 12 of the Ways and Means Committee report accompanying H.R. 9042 apparently attempts to handle some problem involved in the trade readjustment allowance provisions (incorporated in H.R. 9042) through the device of a committee interpretation as to the intent of the Trade Expansion Act, Public Law 87-704.

In the estimate of the Department, what is the problem which the cited paragraph attempts to deal with? Will the Department, after specifying the problem, then proceed to illustrate the application of the formula as set out in the paragraph to a number of representative cases of assumed dislocated automobile workers? After setting forth these illustrative examples, would the Department then show how, and in what manner, the problem dealt with in the paragraph is met? We would be pleased to have, for the record, the Department's estimate as to whether it deems this attempted solution of the problem a satisfactory solution, and afford reasons in support of its judgment in the matter.

Answer. The cited paragraph deals with the question of how trade readjustment allowances are to be treated under supplementary unemployment benefit plans. The committee considered this important since most workers in the automotive industry are covered by collectively bargained plans of supplementary unemployment benefit. Under the GM-SUB plan, which is typical of those in the industry, the weekly supplementary unemployment benefit payment is the lesser of \$50 or the difference between the individual's State unemployment insurance or similar Federal payments and 62 percent of his straight-time wages for a 40-hour week (plus an allowance of \$1.50 for each dependent up to four).

The basic question thus becomes, to what extent is the trade readjustment allowance a "similar Federal payment?" This question will, presumably, be decided by an arbitrator under the terms of the collective bargaining agreement.

There are three possible interpretations:

(1) Trade readjustment allowance is not a Federal payment similar to unemployment insurance, in view of the language in the House committee report on the 1962 Trade Expansion Act. Therefore, a worker could receive his full supplementary unemployment benefit payment without regard to whether or not he were receiving trade readjustment allowance for the same week.

(2) Trade readjustment allowance is a Federal payment similar to unemployment insurance. Therefore the entire trade readjustment allowance payment should be considered in computing the supplementary unemployment benefit to be paid him.

(3) Trade readjustment allowance is partly similar to unemployment insurance and partly compensation for loss of employment protection afforded by the tariff, as indicated in the 1962 House report. Therefore, only part of trade readjustment allowance should be considered in computing each supplementary unemployment benefit payment.

Under the first interpretation, some workers could receive more in trade readjustment allowance plus supplementary unemployment benefit than they had received in wages. Under the second interpretation, many workers would receive no more in combined supplementary unemployment benefit-trade readjustment allowance weekly payments than they would have received in the absence of the

trade readjustment allowance, but a higher proportion of their weekly payment would come from the Government and less from the supplementary unemployment benefit fund.

The third interpretation is the one which the cited paragraph of the Ways and Means report indicates as a reasonable one; moreover, the report provides a guideline for arbitrators in determining what part of the trade readjustment allowance payment is to be considered as similar to unemployment insurance.

The payments that might be made under this interpretation to workers earning the average automobile wage and to low-wage and high-wage workers are shown in the attached table.

This seems to the Department to be a satisfactory solution. It would assure that a dislocated worker would receive some amount in addition to what he would have received were H.R. 9042 not enacted, but that he would not receive a combination of trade readjustment allowance and supplementary unemployment benefits representing an undesirably high percentage of his average weekly wage.

Examples of trade readjustment allowance and supplemental unemployment benefit payments to automobile workers under interpretation in Ways and Means Committee report

Item	Worker A: Average wage (weekly wages of \$150, with \$122 of that representing straight time earnings for a 40-hour week)		Worker B: Low wage (weekly wages of \$98, with \$80 of that representing straight time earnings for a 40-hour week)		Worker C: High wage (weekly wages of \$187, with \$152 of that representing straight time earnings for a 40-hour week)	
	Single	Married, 4 dependents	Single	Married, 4 dependents	Single	Married, 4 dependents
Trade readjustment allowance (65 percent of average wages or \$67).....	\$67.00	\$67.00	\$64.00	\$64.00	\$67	\$67
Supplemental unemployment benefit (62 percent of straight time earnings less \$44, ¹ \$50 ceiling, plus \$6 for 4 dependents).....	31.64	37.64	8.60	11.60	150	156
Total.....	\$98.64	\$104.64	\$69.60	\$75.60	\$117	\$123
Percent of gross average wage.....	65.7	69.7	71	77.1	62.6	65.8

¹ Maximum.
² Represents the weighted (by covered employment) average maximum State unemployment insurance benefit for workers without dependents (as of June 30, 1965).

2. Question. The cited paragraph in the Ways and Means report states that trade readjustment allowance payments were "in the nature of an adjustment to conditions brought about by removal of prior job protection and is not unemployment insurance." Is there, to your knowledge, any similar reference in the Senate proceedings concerning the Trade Readjustment Act? In short, did the Senate, in enacting the Public Law 87-704, at any time and at any place expressly or impliedly indicate that trade readjustment allowance payments were not to be considered as unemployment compensation payments?

Answer. The Senate report on the Trade Expansion Act does not characterize trade readjustment allowance either as unemployment compensation payments or something other than unemployment compensation. The Senate changed the trade readjustment allowance provisions as passed by the House of Representatives to provide for the payment of trade readjustment allowance for workers entirely out of Federal funds, and thus there was no reason for such characterization.

3. Question. Is there any basis in the trade readjustment allowance provisions in Public Law 87-704 (incorporated in H.R. 9042) for handling the problem—whatever it might be—in the manner in which the Ways and Means Committee seeks to handle it in the construction afforded in the cited paragraph of its report?

Answer. The trade readjustment allowance provisions of Public Law 87-704 are silent on the subject of how trade readjustment allowance should be treated under any private programs. However, inevitably this question would be raised

In the course of the regular operation of the supplemental unemployment benefit programs, and the parties would have to resolve it under the terms of collective bargaining agreements. As stated in my answer to your first question, the interpretation indicated in the Ways and Means Committee report would have been a reasonable interpretation even in the absence of language in the committee report.

4. Question. If there is a problem which is not directly dealt with in the basic legislation and apparently requires some construction being placed on it to afford a solution to the problem, would it not in the opinion of the Department be much better that H.R. 9042 now pending before this committee be amended to meet the problem either along the lines suggested by the Ways and Means Committee construction or by an alternative approach?

Answer. Since the question being dealt with is a matter of interpretation of collective bargaining agreements between labor and industry, and not a matter of entitlement under the bill, it is the Department's opinion that it is better to deal with it by a statement of congressional view in a committee report than by statutory language. Furthermore there may be other agreements which differ in some respects from the major supplemental unemployment benefit arrangements in which the interpretation in the committee report would not be appropriate.

5. Question. In the opinion of the Department, are supplemental unemployment benefit payments insofar as Federal legislation is concerned to be taken into account in the determination of how large a trade readjustment allowance payment should be?

Answer. The formula for computing an individual's trade readjustment allowance, in Public Law 87-794, does not provide for taking account of any private payments received by the individual except wages earned in the week. The Department believes that this is the proper approach. The Government payment should be the basic payment to all eligible individuals.

6. Question. Public Law 87-794, section 323(e) states when a dislocated worker is in receipt of a combination of wages, unemployment insurance and training allowances, his readjustment allowance payment is cut down to the extent that the readjustment allowance payment together with either one or all of the specified items shall not cause the aggregate of payments (including the trade readjustment allowance payments) to exceed 75 percent of the dislocated worker's average wage. Is not this a clear and express intent of limiting a worker's receipt of unemployment compensation, wages and trade readjustment allowance payments so that the combination will be 25 percent short of his average wage?

Answer. Section 323(e) of Public Law 87-794 is designed to assure that remuneration for services in a week and the specified public payments will not exceed 75 percent of a worker's average weekly wage; it was not intended to limit the worker's total income for the week. As Public Law 87-794 was passed, it is virtually impossible for a worker to receive for the same week both a trade readjustment allowance and any one of the other public payments specified. Consequently, section 323(e) has the effect of affecting only trade readjustment allowance payments to a worker who is working part time. In order to encourage unemployed workers to accept whatever work may be available, it is desirable that they be able to receive more, in wages and allowances, than they could receive in allowances alone.

7. Question. If supplemental unemployment benefit payments are not to be taken into account in this determination of holding readjustment allowance payments to the level of total payments specified in section 323(e), then is it not true that the additional supplemental unemployment benefit payments on this specified level would in every instance afford the claimant a much higher percentage than 75 percent of his regular wages—and in many instances, the aggregate of the items referred to in paragraph 323(e) plus the supplemental unemployment benefit payments would exceed the average wage of the claimant. Why, if there is the clear and manifest intent of the Congress to limit trade readjustment allowances so as to afford the results specified in section 323(e), should not the trade allowance provisions be revised so as to include supplemental unemployment benefit payments as a type of payment to be included in section 323(e)?

Answer. The combination of trade readjustment allowance and supplemental unemployment benefit payments on the basis provided in the Ways and Means Committee report will permit only a few workers to receive a total payment of more than 75 percent of their wages. The exceptions are workers with low

wages and four or more dependents, and result because the supplemental unemployment benefit payment of \$6 for four dependents represents a larger proportion of a low wage than of a higher one. As shown in the examples I supplied in reply to your first question on this topic, the average automobile worker will receive less than 70 percent of his wages under the interpretation offered by the Ways and Means Committee.

Section 323(e) reflects a congressional intent to provide a limitation on the combination of remuneration for services in a week and the specified public payments for the same week. There was no intent to stand in the way of private supplements provided for in private agreements or to otherwise limit private income.

8. Question. If there was a desire on the part of Congress to legislate so as to put supplemental unemployment benefit payments in the same category as unemployment compensation, would not the proper approach be to amend section 838(12) to provide as follows:

"The term 'unemployment insurance' means the unemployment insurance payable to an individual under any State law or any private unemployment compensation benefit plan supplementary thereto, or Federal unemployment insurance law, including title XV of the Social Security Act, the Railroad Unemployment Insurance Act, and the Temporary Extended Unemployment Compensation Act of 1961." [Italic in addition.]

Answer. In my opinion, it would be undesirable for Congress by legislation to preclude private arrangements to supplement trade readjustment allowance. That would, in effect, be the result of amending section 838(12) of Public Law 87-794 to provide that any private unemployment benefit plan supplementary to State unemployment insurance must be treated, under trade readjustment allowance, like State unemployment insurance.

Since trade readjustment allowance is generally higher than supplemental unemployment benefit, workers would choose trade readjustment allowance. The supplemental unemployment benefit funds would therefore bear no portion of the cost of total assistance to dislocated workers. Federal payments would remain the same, but the amounts received by dislocated workers would be less than under the interpretation of the Ways and Means Committee.

9. Question. In the opinion of the Department, is the clear intent which is to be gathered from section 323(e) in line with the public interest of providing that workers shall receive less in out-of-work benefits than he has been receiving in wages?

Answer. I believe it is in the public interest that payments to unemployed workers be less than the wages they have been receiving. This result is achieved by the approach to the combination of trade readjustment allowance and supplemental unemployment benefits expressed in the Ways and Means Committee report.

Senator CURTIS. Thank you very much.

The CHAIRMAN. What date?

Senator CURTIS. I think I would like to submit them as if submitted to them today and I would like to get them in their hands today so we will have them when we take this up in executive session.

Senator MORTON. Mr. Chairman, may I undertake to ask Under Secretary Mann a question?

Mr. Mann, you say these automobile companies in Canada are 90 percent U.S. owned. The profits from these companies return to the United States and this helps our balance of payments, does it not?

Mr. MANN. That is correct, sir.

Senator MORTON. And the more efficient that industry is, it is conceivable that their profits might increase and it might help our balance-of-payments situation?

Mr. MANN. That is correct, sir.

Senator MORTON. And this is perhaps the most efficient industry in the United States?

Mr. MANN. Certainly one of the most efficient.

Senator MORTON. Yes. And of all the industries that we could, we would want to break down trade barriers that affect any industry, it seems to me that we ought to break down the trade barriers in those in which we are efficient; in spite of our very high and properly high, wage costs.

Mr. MANN. That is correct, sir.

Senator MORTON. Would that be your off-the-cuff judgment?

Mr. MANN. Yes, sir; that would be my judgment.

Senator GORE. Mr. Chairman, in view of the very interesting questions and statements of the junior Senator from Kentucky, I would like to request Secretary Mann or the Treasury Department to supply to the committee statistics on the repatriation of profits earned in Canada by American-owned subsidiaries.

The CHAIRMAN. Will that be available? Will that be available promptly?

Mr. MANN. Mr. Chairman, if it is available to us, we will certainly submit it to the committee.

Senator GORE. Mr. Chairman, I don't want that "if." I would like to ask the Treasury directly to submit that information.

Mr. MANN. I think the automotive industry witnesses who will be before this committee are probably the best witnesses on how much repatriation of profits and dividends and capital there has been and what the investment has been which is really what you are asking.

Senator GORE. I would like it from the Treasury, Mr. Chairman.

(The information subsequently submitted by the Treasury Department follows:)

Earnings and dividend distributions of the Canadian automotive manufacturing subsidiaries of General Motors, Ford, and Chrysler, 1961-64

[Dollars in millions]

	1961	1962	1963	1964
Profits ¹	\$56.0	\$66.6	\$97.7	\$76.3
Dividend distributions ²	\$47.2	\$48.8	\$45.1	\$14.4
Ratio: distribution to profits.....	84.3	73.3	46.2	18.9

¹ After Canadian taxes.

² Includes distributions by Ford of Canada to minority interests.

Senator SMATHERS. May I ask one other series of questions of Secretary Mann?

You have had long experience, of course, in Central and South America, and you favored, did you not, the establishment of the Central American or what would amount to a customs union or development union?

Mr. MANN. Yes, sir.

Senator SMATHERS. And you have seen, have you not, in your experience such an arrangement which you might say would be in some respects an antithesis of the concept of free trade, nevertheless where, for an area, it is beneficial?

Mr. MANN. I think it is essential in that area particularly, Senator, because of the very small domestic markets and very small purchasing power in the small countries, obviously unable to support any efficient industry unless they have a common market.

Senator SMATHERS. Do you conceive of this agreement with Canada falling somewhat in that same concept or not?

Mr. MANN. Well, sir, yes; I think to the extent that this expands our trade opportunities of our industry and our opportunities to export, it falls within the same category.

Senator SMATHERS. I have no further questions.

Senator GORE. I yield.

Senator SMATHERS. May I ask just one other question?

We passed here in the Senate, I think last year, the International Coffee Agreement. Does not the International Coffee Agreement fall somewhat within the same concept we are talking about, where, in effect, we recognize the practical aspects of living side by side with neighbors who probably are not as well equipped to take care of themselves as are we, or we provide the biggest market as we did in the coffee situation and, therefore, we enter into certain agreements which, in effect, end up for the benefit not only of ourselves but for all concerned, has that not been the case with the coffee agreement?

Mr. MANN. Certainly the coffee agreement has benefited both consumer and producer alike; yes, sir.

Senator SMATHERS. Thank you, that is all I have.

The CHAIRMAN. Any further questions?

Senator GORE. Mr. Secretary, how many small business concerns in the United States are involved in the manufacture of automobile parts?

Mr. MANN. Senator, I think a great many of these questions Commerce can answer better than I. It might be as much as a hundred thousand. I don't have the exact figure in my head.

Senator GORE. No.

Mr. McNEILL. There are about 10,000 firms manufacturing automotive parts. Of the 10,000, approximately 2,000 to 3,000 account for the substantial volume of production in this country of automobile parts.

Senator GORE. Well, my statistics indicated that 5,000 would comprise the number of concerns that supply the overwhelming proportion of parts. So this doesn't vary a great deal from your statistics.

Mr. McNEILL. No.

Senator GORE. Now, Mr. Secretary, with 8,000 to 4,000 small business concerns manufacturing automotive parts in this country, I would like to ask you what benefits you anticipate for them and their operations in the United States as a result of this agreement.

Mr. MANN. Senator, I will be happy to give you an answer. I think you can get a better answer however from Commerce whose responsibility it is, and, on which the Secretary is prepared to testify.

Senator GORE. Well, I am willing to ask questions of the Secretary of Commerce, but you are the first witness. This is a matter of international agreement.

Mr. MANN. I will do my best, Senator.

The question is—

Senator GORE. Do you know of any benefit to the small business concern, say the manufacturer of radiators, automobile radiators in the United States, what benefits will inure to him in his operations in earning profits, in giving jobs in the United States?

Mr. MANN. To the extent that these 4,000 or 5,000 firms produce parts which are used in original automobiles, they obtain the benefit of unrestricted, virtually unrestricted access to a new market in Canada. To the extent that these firms manufacture replacement parts, they are somewhat better off than they would have been, than they were, under the situation as this existed before the agreement was signed, but they are otherwise not affected by the agreement.

Senator GORE. Let's see if they are not otherwise affected.

Mr. MANN. Sir?

Senator GORE. You say they are otherwise not affected. I would like to examine that.

Suppose that a U.S. small business concern supplies radiators to General Motors for use in the assembly of new vehicles, and this comprises almost the sole business of that concern which employs, say, 300 people. As a result of this agreement, General Motors can then establish a subsidiary in Canada, with such tax advantages, incidentally, as it may receive thereby, and it can manufacture assembly line—through assembly-line methods, at lower wage structure that prevails in Canada, and import duty free the radiators which it has previously been purchasing from the said U.S. supplier.

Wouldn't that affect the U.S. company?

Mr. MANN. I think that is possible, Senator, but it is equally possible that the General Motors would buy more radiators from this particular company and export it as part of an automobile to Canada. It is also possible that this same company might be able to expand its export business in Canada because it is more efficient, depending on its efficiency.

Senator GORE. I do not give this to you with the idea of being an assured fact but I had an unusual experience with respect to this legislation. As I look into it, I became increasingly concerned about it. It appears to me to be far from the liberalized trade policy with which you undertook to picture in your first sentence, but rather a closed cartel. I began to scout around for some witnesses who would be in opposition, and I was told emphatically by interested parties and by some of my colleagues whose constituents are small businessmen supplying parts that the parts manufacturers were literally frightened to appear. That some who had spoken out had already lost contracts and, therefore, although they realized that this is contrary to the interests of small business, and is a closed deal for the Big Four, they are frightened to appear.

This is what is alleged to me. Had you heard of such a thing?

Mr. MANN. No, sir; I had not, Senator. I had not heard of it.

Senator GORE. Would you like to be confidentially supplied with such information?

Mr. MANN. I would be happy to receive it; yes, sir.

Senator GORE. I shall see that you get it.

Mr. MANN. I do want to say, Senator, that whenever you change an existing pattern of trade there are always people who worry about how they are going to be affected. The history of trade is that by and large most people are better off with lowering trade barriers than they were before.

Senator GORE. Yes; but you are lowering trade barriers—this is a one-way street. You are not lowering the trade barriers for small

business. You are not lowering trade barriers for the American consumer. You are lowering trade barriers for the Big Four automobile concerns by this agreement.

Of course, when you change trade patterns, you help some people and hurt others. That is what I am trying to say. You are hurting the thousands of small businessmen who supply parts, and you are hurting the American consumer, you are hurting the people who have jobs in these small businesses, and who would have more jobs in these small businesses, for the benefit of workers in Canada and automobile concerns who have subsidiaries there.

Mr. MANN. Senator, All I can say is we have been over much of this ground but our conclusions are different from yours. The United Automobile Workers, their economists looked into this, and decided that the worker would be helped and not hurt, the American worker. Our economists throughout the Government decided this would increase our exports to Canada, and that our margin, which is already very considerable, of favorable balance in our direction, would be maintained, and that this would be good for both the economies, consumers, both industry and labor.

As I said earlier, if this is wrong, we have set out in the agreement an opportunity to review it before January 1, 1968, and we have the right to terminate the agreement on 12 months' notice if you are correct.

We don't believe as you apparently do, Senator, that this will result in higher costs and that it is a one-way street, and that American industry won't, American industry and labor, won't benefit.

Senator GORE. Well, Mr. Secretary, the automotive industry undoubtedly will grow both in Canada and in the United States. That is not involved here.

The question is where it is going to grow and in what proportion.

If you give overall statistics of U.S. exports then you take advantage, which is proper, of the increased use of automobiles and the efficiency of the U.S. industry. But this agreement has as its very purpose a disproportionate increase in Canada. That is written into the agreement, written into the letters given to Canada by the automobile companies. So we can't quite, I think, justify this by these glittering generalities.

This is changing the trade pattern to the detriment of small business in the United States and for the benefit of the Big Four.

Mr. MANN. Senator, if you compare our automobile market in Canada with our automobile market in any other country of this hemisphere, this really isn't any comparison at all, and the option here is, in my opinion, whether we move in the direction of liberal trade and try to expand this, as I said in my statement, to include replacement parts as soon as we can, or whether we both move in a protectionist direction with the result that our trade will be about the same level in automotive products as it is with Mexico to the south or with Brazil or with Argentina.

Now, they follow quite different policies, but I think the justification for this policy lies in the volume of trade that we have, the number of workers we employ, and the foreign exchange we earn.

Senator GORE. Mr. Secretary, if you want to follow a liberal trade policy I will go with you.

But this is not it. If you want to do that, let's take off the duties not only for the Big Four, but let's take them off for the supply stores, for the parts manufacturing companies, some of them might want to move to Canada, too.

Mr. MANN. As I said in my statement—we agree with you, Senator. Senator GORE. You do?

Mr. MANN. We would like to see the agreement extended to include replacement parts, which is essentially what you are talking about. We proposed this. We were not able to negotiate it and, as I said, in my statement, this is going to be, to continue to be, the subject of discussion with the Canadians. Our hope is that as their industry becomes more efficient under the spur of competition that we will be able in the years ahead to do what you are suggesting. We agree with you about that.

Senator GORE. They have all of the spur of competition now that they need. I don't quite get your point that they are going to become more efficient by the spur of competition. They may become more efficient as a result of this special deal, because the U.S. concerns can establish subsidiaries there manufacturing a much larger portion of their parts, or all of their parts, at cheaper labor with new facilities, and import them duty free into the United States in competition with the 4,000 or 5,000 concerns in the United States that are now engaged in the manufacture of automobile parts.

If you want to go free trade, let's include something more than a closed one-way street for the Big Four.

Mr. MANN. Well this, Senator, is not really a one-way street. There is a two-way street in automotive products which are used in original cars, and it leaves the status quo ante, it leaves the replacement parts people in virtually the same position as before the agreement except they are no longer adversely affected by the Canadian remission plan.

Senator GORE. What is the Canadian tariff? Let's see if it is a one-way street. What is the Canadian tariff on parts?

Mr. MANN. As I said in my statement, before the agreement Canada imposed a duty of 17½ percent on motor vehicles and up to 25 percent on parts. On our part, the United States imposed a 6½-percent duty on automobiles and an 8½-percent duty on parts.

Senator GORE. When did you first learn of the letters of the automobile companies to Canada?

Mr. MANN. Senator, it was 2 or 3 days when I was briefed on my testimony before the House Ways and Means Committee, April, I would say, of this year.

Senator DOUGLAS. April 25 and 26?

Mr. MANN. Yes, sir.

Senator DOUGLAS. Excuse me. Go ahead.

Mr. MANN. Two or three days before that testimony, I was briefed and appeared before the committee.

Senator DOUGLAS. The letters are dated January 13 and January 14.

Mr. MANN. Yes, sir. But the Senator's question to me was "When did you learn"—now, other people were familiar with the letters before that.

Senator DOUGLAS. When did the Department learn of it?

Excuse me.

When did the Department learn?

Mr. MANN. I would like to refer this to Mr. Trezise, who is Deputy Assistant Secretary for Economic Affairs.

Mr. TREZISE. Well, I would say, Senator—

Senator SMATHERS. Before you answer, let me interrupt you.

Senator DOUGLAS. The Senator from Tennessee and the Senator from Florida interrupted me. I think we ought to cancel out.

Senator GORE. They are printed in the record.

Mr. TREZISE. Well, we learned of the fact that the letters had been sent, signed, I suppose a day or so after this was done or thereabouts. We had known, of course, that there were discussions going on well before that.

Senator GORE. Was this before or after the agreement had been signed?

Mr. TREZISE. The agreement was signed by the President and the Prime Minister after these letters had been—

Senator GORE. After you had learned about them?

Mr. TREZISE. Yes.

Senator GORE. But now give us the exact date you first learned about them.

Mr. TREZISE. Senator, my memory on this may not be perfect. I think the letters were signed on the 13th and 14th of January. The President and the Prime Minister signed the agreement down in Texas on the 16th, so there was an interval of a few days.

Senator GORE. Well, that wasn't my question to you. When did you first have a text of the letters?

Mr. TREZISE. We first had a text of the letters when they were made public, were introduced before the Ways and Means Committee.

Senator GORE. Who advised the President to sign an agreement based on secret letters from the automobile concerns which the negotiator says he didn't know about until they were published in the hearings? This is strange business.

Mr. TREZISE. We know about the letters, we knew about the contents of the letters. You asked when did we first see the text of the letters.

Senator GORE. You mean you were told about it, is that what you mean?

Mr. TREZISE. Yes; that is correct.

Senator GORE. Are you aware that the letters contain almost identical language?

Mr. TREZISE. Yes, sir.

Senator GORE. And that the letters themselves imply a knowledge of the agreement which had not been discussed?

Mr. TREZISE. Yes, sir.

Senator GORE. How did the automobile concerns know what the agreement was going to be before the President signed it?

Mr. TREZISE. Well, sir, in the course of negotiating the agreement we consulted with the automobile companies. We also consulted with the United Automobile Workers and we consulted with the representatives of the parts industry. This is normal practice, I might say. We consulted as seemed appropriate in the whole course of this. There were very large interests involved on the part of all the people.

Senator GORE. I am sure there were. That is plain to see.

Were copies of the proposed agreement submitted to the automobile concerns before they were submitted to the President?

Mr. MANN. Well, the automobile companies, and I may say the parts industry, were aware of the general content of the agreement. We did not clear the language with them, obviously.

Senator GORE. That is not my question.

Were copies of the proposed agreement supplied to the automobile concerns before they were furnished to the President?

Mr. MANN. No, I don't think so.

Senator GORE. When was a copy for the President's signature submitted to him?

Mr. TREZISE. I couldn't answer you that directly. It was some time early in January.

Senator GORE. Could you refresh your memory and let us know by 10 o'clock tomorrow?

Mr. TREZISE. Yes. I think this is possible. I am not exactly sure when the agreement formula was given to him.

(The following statement was subsequently submitted by Under Secretary Mann:)

Yesterday we were asked by Senator Gore when the text of the agreement was provided to the President, on the one hand, and to the auto companies on the other hand. In answering this question, I would like to explain that the negotiations for the agreement were carried out over a period of several months, preceded by several exploratory discussions beginning in July of 1964. The main elements of the agreement were developed in October and November. The agreement was concluded in January of this year.

The negotiating team, made up primarily of officials of the Departments of State and Commerce, assisted by officials of other interested agencies, reported directly to a Cabinet subcommittee. Serving on this committee was Under Secretary Ball, as Chairman, Secretary Hodges, Secretary Wirtz, Secretary Dillon, Governor Herter and a member of the White House staff. As the exploratory discussions were concluded and negotiations initiated, the negotiating team reported regularly to the Cabinet subcommittee and received negotiating instructions directly from this committee. Through this mechanism, the White House was kept closely informed of the progress of these negotiations.

In the course of the negotiations, consultations were held at appropriate intervals with representatives of the industry, including vehicles manufacturers and parts producers, small and large, and labor. Near the conclusion of the negotiations in January, the relevant provisions were discussed in detail with the industry representatives. However, the final touches, in the form of certain technical descriptions of the tariff items covered by the agreement, were not completed until late on January 14. The final text of the agreement was thus given to the industry and the UAW on January 15, the same date on which the agreement was released to the press. The agreement was signed on January 16.

Senator GORE. Well, could you let us know when a copy or a text of the proposed agreement was supplied to the automobile concerns? Can you refresh your memory on that?

Mr. TREZISE. The automobile companies, Senator, were given the agreement at the time it was made public generally, not before.

Senator GORE. But their letters, which were dated before the agreement, contained obvious references to it. In what form did the Canadian Government ask the automobile companies for these letters—was it by letter, by memorandum, or personal conversation?

Mr. TREZISE. Well, these are matters, I think, Senator, that the Canadian Government and Canadian subsidiaries could testify on more accurately than I can. The letter says, "this letter is in response to your request." To the best of my knowledge it was an oral request but I could not testify to that effect.

Senator GORE. You understand we haven't the privilege of interrogating the Canadian companies. It is the U.S. Government that is advocating action by the U.S. Congress.

Mr. TREZISE. But the letters were between the subsidiaries in Canada and the Canadian Government. They knew they had negotiated it with us and what they may have told the Canadian subsidiaries is a matter between the Canadian Government and the Canadian subsidiaries.

Senator GORE. And the Canadian Government and the United States companies. But the United States wasn't sufficiently interested to find out what the commitments were, what the letters of understanding were between Canada and the companies located in Canada which are subsidiaries of United States companies.

Mr. TREZISE. Yes, we were informed.

Senator GORE. In what form was this request made? As you say, the automobile companies refer to a request. Was it a written request, was it a letter, was it a memorandum?

Mr. TREZISE. Senator, I am afraid you will have to ask that of the Minister of Industry in Canada. He made the request; not me.

Senator GORE. But you don't know?

Mr. TREZISE. No, I don't.

Senator GORE. Thank you, Mr. Chairman.

Mr. MANN. I would just like to say for the record that the U.S. Government was informed about the content of these letters before the agreement was presented to the President for signature, and, second, to say that I hope the time will never come when the U.S. Government is negotiating trade concessions of vital interest to a U.S. industry, be it large or small, where we don't consult with that industry and with labor, which will be directly affected by the results of the negotiations, and I don't think there is anything wrong with that. I think we should be in constant touch with industry and with labor whenever we deal in a trade negotiation. That is precisely what happened here.

We were in touch with the four automobile manufacturing companies, with the manufacturers of replacement parts and with labor, and with anyone else who was interested in it and could offer advice and suggestions.

Senator MORRON. And, Mr. Secretary, perhaps with certain Members of Congress who had an interest in it.

Mr. MANN. I am sure that certain Members of Congress were talked to.

Senator MORRON. I can remember in my brief tour of duty in your department, that I would have been very much criticized if I hadn't kept the Congress thoroughly informed on every negotiation that went on and all of the details of the negotiation and trade agreements. I remember one in the Philippines where there was great interest in this country, and it got to be a rather tedious job of keeping certain Members of Congress thoroughly informed at all times on just what was going on and taking place, and there were many exchanges of letters.

Senator HARTKE. Mr. Chairman, will the Senator yield at that point?

Did you inform any Members of the Congress?

Mr. MANN. Senator, as I have said earlier, I personally was not, this warm body was not, in the economic chair, but I am told—

Senator HARTKE. Can your assistant tell us whether any Member of Congress was so informed?

Mr. MANN. I am told by my colleagues there were discussions with a number of Members of both Houses who had an interest in the matter.

Senator HARTKE. With what Members of the Senate was this discussed?

Mr. TREZISE. We discussed it, Senator, with your staff.

Senator HARTKE. That is right, that is right. Some discussions were held concerning the remissions, and the facts concerning what was going on. But when was this memorandum first discussed specifically? When was this memorandum delivered to my office?

Mr. MCNEILL. Senator, since I was the one who talked most with your staff, I don't think I ever gave a formal memorandum to your staff, but I did have several discussions.

Senator HARTKE. Or were any details.

Mr. MCNEILL. I gave the greatest of detail, I think, to Miss Wolf of your staff, and others.

Senator HARTKE. When?

Mr. MCNEILL. I would have to refresh my memory on that, but I would say certainly in the winter.

Senator HARTKE. As to the specifics of this memorandum itself? I think I can put the record straight a little. Some of the Members were notified on January 14, and then the staff member of the committee on January 15 notified members of the Finance Committee, and the agreement was signed on January 16. That was your discussion and notification.

Senator GORE. What is your understanding of a cartel, Mr. Secretary?

Mr. MANN. What is my definition of a cartel? A cartel is a combination of business enterprises which form an agreement to control markets and to divide markets and control prices I do not know whether that is—

Senator GORE. Or production.

Mr. MANN. Well, yes; I am sure that production is also one of the things that they agree on.

Senator GORE. Well, you give a definition that I hardly anticipated—which fits this agreement.

Mr. MANN. Senator, with all due respect, I must dissent from that. I do not think this is a cartel.

Senator SMITHERS. I did not hear what you said.

Mr. MANN. With all due respect I must dissent from that. I do not think this has the characteristics of a cartel.

Senator GORE. Does not this agreement move in the direction of sanctioning a division of the Canadian market and Canadian production among a group of companies in a more or less fixed ratio?

Mr. MANN. There is no provision to prevent—there is no provision that other companies cannot come in here. This is an agreement—

Senator GORE. Would you like—if you can organize another Ford, another General Motors, another Chrysler, and break into the business, I daresay there is no legal prohibition against it, but there are a lot of economic impediments.

Mr. MANN. Well, this is an agreement, I was about to say, which enlarges the area of competition, and the alternative we were faced with was one of great restrictions and great protections. I think this moves us away from cartel toward liberal trade, toward an integrated automotive industry, in Canada and the United States.

Senator GORE. Very respectfully, I suggest to you that the facts will not bear out your conclusion. It moves in directly the opposite direction from that which you have just described.

Mr. MANN. Well, there is no limitation on the number or value of cars any company can produce. There is no allocation or agreement among the companies as to sales areas or types of product, either domestically, in Canada or in other markets. In fact, arrangements encourage more production and sales in both the United States and Canada and to the other country.

Senator GORE. In what proportion will Canada, to what proportion, will production in Canada share in the growth of the automotive industry?

Mr. TREZISE. Well, you are referring to the total North American market?

Senator GORE. Yes.

Mr. TREZISE. Well, the best estimates seem to be that over the period of the next 3 years, 3 model years, Canada's share in the North American total will rise from around 4 to about 5 percent. Now, this is, of course, an estimate, but this seems to be generally—

Senator GORE. I am speaking now of the share of the increase, that was my question.

Mr. TREZISE. I don't know that offhand. You were asking about the share of the increase?

Mr. McNEILL. Well, Senator, the Canadian market for automobiles has been growing over the past 3 or 4 years at a far greater rate than the United States.

Senator GORE. It has been growing remarkably since the imposition of their restrictive duties, as was testified earlier.

Mr. TREZISE. They were imposed in 1936.

Senator GORE. I am speaking of the remission plan.

Mr. McNEILL. That was first imposed in 1962.

Senator GORE. Senator Hartke suggests a better word than "plan," he suggests "scheme."

The figures previously given to the committee today suggests that from a level of \$33 million in 1962, Canada's exports to the United States have increased to a level of \$120 million this year.

Mr. McNEILL. Senator, if I may, prior to the imposition of the remission program, the Canadians exported to the United States in the automotive sector \$12 million in 1962.

Senator GORE. Parts and vehicles?

Mr. McNEILL. Mostly parts, sir.

In 1963 their exports to the United States of parts went to \$33 million. That was the first full year of the remission plan.

Senator GORE. I misstated my year. It was 1963.

Mr. McNEILL. Yes. I am going back 1 year.

Senator GORE. Instead of 1962. Thank you.

Mr. McNEILL. I am going back 1 year.

Senator GORE. How much did it go to?

Mr. McNEILL. It went to \$33 million. In November 1963 the remission program was expanded to cover a broader range of parts on which remission could be made.

Senator GORE. Yes.

Mr. McNEILL. In that year, automobile exports from Canada went from \$33 million to an estimated level of \$90 million in 1964. So this great increase occurred pursuant to the tariff remission program.

Now, since the tariff remission program—

Senator GORE. Excuse me just a moment. Could we state, I would like to state in the record, restate for the record, that the 6-month level this year is, I believe it was testified, at a rate of \$120 million.

Mr. McNEILL. If I may, sir.

Senator GORE. If I may go on for one moment, which means a 1,000-percent increase since 1962.

Mr. McNEILL. Senator, the point I am trying to make is that the most rapid growth—

Senator GORE. Is that true?

Mr. McNEILL. If I may explain, the most rapid rate of increase came as a result of the remission scheme. It went up to \$90 million. For the first 6 months of this year it went to \$60 million, which if you doubled it, would give you \$120 million, so it is true you have gone from \$33 to \$120 million.

Secretary CONNOR. I think you have to look at the entire picture, and during this entire period you are talking about, the net favorable balance of trade in our favor or in favor of the United States has gone from about \$390 million in 1961 to \$460 million in 1962, to \$530 million in 1963, to \$564 million in 1964, and it shows a modest increase again in the first 6 months of this year. So we have not done badly.

Senator GORE. Well, if you wanted again to fall back on the general proposition then you might find out what the balance of trade is between the United States and Canada on paper. If we are going to have a more liberal trade policy between the United States and Canada, then I am prepared to go with you. But I am not prepared to go with you for the exclusive benefit of the Big Four, and to the detriment of small business in the United States, and to the detriment of jobs in the United States.

Secretary CONNOR. Well, sir, we do not think it is going to have that effect. I do have a statement—

Senator GORE. I have just given figures that this remission plan does have that effect, and the Canadian Government said that the purpose of it was to continue the effect of the remission scheme.

Secretary CONNOR. As I understand it, there was a later retraction or revision of that statement. I do not think it should have been accepted.

Senator GORE. I think the record ought to be revised.

Mr. TREZISE. Senator, I think the record ought to be clear on that statement. You made it earlier in the hearing. This is the one taken from the Tariff Commission statement. I do not think it refers quite in the manner you suggested.

Senator SMATHERS. Talk a little louder, please, sir.

Mr. TREZISE. All right. The Tariff Commission, Senator, sent a report to the Congress on the Canadian agreement. In the course of this, it is on page 19, it said:

The Government of Canada announced that it was taking this immediate action—

that is eliminating duties—

In order to provide continuity where "the present automotive plan," that is, the 1960 tariff rebate plan, and to enable Canadian producers to proceed with expansion plans.

I can explain that, Senator. Under the remission plan, most parts were coming into Canada free of duty under the arrangement that had then prevailed.

When we negotiated the agreement, and the Canadians then had to decide what would they then do, they had to get rid of the remission plan, and they realize that if they were to reimpose duties which had, as I say, not been collected under the remission plan, then they would cause real consternation and difficulty for the Canadian companies.

So they processed forthwith to eliminate duties as they had to in order to give the companies continuity, and that is the continuity referred to. It had nothing to do with the continuity of the remission plan. It is the continuity of zero duty and we discussed this at great length with Canadians and this is precisely why this statement was made, not to say the remission plan was being continued, because it was not, it was being withdrawn.

Senator GORE. I have asked for the text of the statement. But whatever the statement may say, the facts stand that this agreement has, in fact, continued it and made it better for Canada and better for the automobile concerns and worse—

Mr. TREZISE. With all respect, Senator, I would say this agreement has not continued the remission plan, and has indeed caused its withdrawal.

Senator GORE. I said the effects of it.

Mr. TREZISE. And not the effect of it either.

Senator GORE. Well, we will—

Mr. TREZISE. We can submit chapter and verse on that if you wish.

Senator GORE. Well, the effect of it is to increase Canada's exports to the United States, and we have just had a statement of the statistics. It has increased since this agreement was signed from the level of \$90 million annually to a level of \$120 million annually, so I am happy to cite statistics with you.

I yield.

Senator HARTKE. Mr. Drury, the Minister of Industry in Canada, estimates the increased Canadian production of vehicles and parts to be about one-third of \$1 billion per year in 1968. Is it the contention that the sale of automobiles will be increased by that proportion in Canada?

Mr. TREZISE. By one-third?

Senator HARTKE. By one-third, or one-third billion dollars.

Secretary CONNOR. The estimated growth rate in Canada of the automobile trade is estimated at 8 percent.

Senator HARTKE. I do not think they say that the increased production in vehicles alone will be one-third of a million dollars. It will

be \$241 million plus 60 percent of growth. Where are they going to sell that additional production?

Secretary CONNOR. No, sir. That is not the position we take, and I would like to cover some of that.

Senator HARTKE. Is that the position Canada takes?

Secretary CONNOR. I would like to cover some of the points about this business, Mr. Chairman. I would like to read my statement because this is relevant to many of the questions which have been asked.

Senator SMATHERS. May I suggest that it is obvious that we won't get to the Secretary of Labor this morning. I see him sitting here.

Would it be all right, Mr. Chairman, to at least excuse the Secretary of Labor this morning so that he might come at some other time rather than have him sit here when it is obvious we won't get to him today?

The CHAIRMAN. Is that agreeable to the Secretary of Labor?

Secretary WIRTZ. Thank you, Mr. Chairman. Will you continue this afternoon or has it been decided?

The CHAIRMAN. It will not be possible for the committee to sit this afternoon as there is going to be a good deal of voting in the Senate.

The Chair is very anxious to expedite this legislation.

We have seven witnesses today in addition to Under Secretary Mann, whom we will doubtlessly be unable to hear, and a number of witnesses scheduled for tomorrow.

Senator SMATHERS. The question is when do we have these witnesses from the Government back. We have not heard them, and Senator Hartke wants to question some of them. Senator Gore does, too. We have not heard from the Secretary of Commerce nor from the Secretary of Labor, so could we set that up for Thursday morning?

The CHAIRMAN. I think the Secretary of Labor has other very important duties.

Secretary WIRTZ. I have no other duties, Mr. Chairman, and I am anxious to testify. I feel very strongly about this legislation, and I would like to advance a quite different picture than that which has been implied, different from the one implied by the questions about employment, and I would like to press very early my support of this legislation at the earliest possible time.

Secretary CONNOR. On behalf of the Commerce Department, Mr. Chairman, I would like to submit my statement.

The CHAIRMAN. The Chair suggests that the Government witnesses as well as all other witnesses scheduled today, come back tomorrow at 10 o'clock. The witnesses scheduled for tomorrow will be rescheduled for Thursday.

Senator GORE. Whatever the chairman decides will be satisfactory with me.

The CHAIRMAN. The committee will be in recess until tomorrow morning at 10 a.m.

(Whereupon, at 12:20 p.m., the committee adjourned to reconvene at 10 a.m., Wednesday, September 15, 1965.)

UNITED STATES-CANADIAN AUTOMOBILE AGREEMENT

WEDNESDAY, SEPTEMBER 15, 1965

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room 2219, New Senate Office Building, Senator Russell B. Long, presiding.

Present: Senators Byrd, Long, Smathers, Douglas, Talmadge, Hartke, Williams, Carlson, Morton, and Dirksen.

Also present: Hon. Thomas C. Mann, Under Secretary of State for Economic Affairs; Philip H. Trezise, Deputy Assistant Secretary for Economic Affairs, Department of State; Hon. John T. Connor, Secretary of Commerce; Robert L. McNeill, Deputy Assistant Secretary for Trade Policy, Department of Commerce; Hon. Willard Wirtz, Secretary of Labor; and Fred Boyett, Assistant Deputy Commissioner, Bureau of Customs, Department of the Treasury.

Also present: Elizabeth B. Springer, chief clerk, and Thomas Vail, professional staff member.

Senator LONG. I am going to call this meeting to order.

Other Senators will be along, but we don't have to have a full quorum in order to conduct a hearing.

Now, the plan, as I understood it on yesterday was to hear the Under Secretary of State for Economic Affairs, Mr. Thomas Mann, to hear the Secretary of Commerce, the Honorable John T. Connor, and the Secretary of Labor, the Honorable Willard Wirtz.

Now, we did not hear all three of those important witnesses because of the number of questions asked Secretary Mann by members of the committee.

I am going to restrain myself and urge all other members to restrain themselves from asking questions until we complete what we set out to do yesterday, to hear the full statements of the witnesses. I would hope that we can then proceed by a 15-minute rule, giving each member 15 minutes to ask questions and hear answers. If the member is satisfied, he can be about his business; if he is not satisfied with the information that he gets in this way he can stay around and have a second turn. On the second round I would suggest that we have unlimited questioning in case someone wants to go into greater detail.

Senator CARLSON. Mr. Chairman, yesterday I cooperated fully with the chairman, and I expect to cooperate today and I would suggest that we do try to get these witnesses of the various Federal agencies completed; they may have to come back in view of the fact that some of the members are not here. But we have some outstanding motor-car executives here who I hope we can hear and let them go back.

Senator LONG. I think the Senator is entirely correct, and, Mr. Secretary, I want you to know I have already read your statement. I

think it is a very fine statement, and I look forward to the answers to the various questions that will be asked. I think for the benefit of our audience, however, that it would be well for you to start right out and read your statement. I will, therefore, call next on the Secretary of Commerce, Mr. John T. Connor.

**STATEMENT OF HON. JOHN T. CONNOR, SECRETARY OF
COMMERCE—Resumed**

Secretary CONNOR. Thank you very much, Mr. Chairman.

Mr. Chairman, and members of the committee, I am pleased to appear before you in support of H.R. 9042, the proposed legislation to enable us to carry out our commitments under the United States-Canadian Automotive Products Agreement. As you know, Canada has already eliminated duties on imports of finished motor vehicles and original equipment parts, in accordance with its obligations under the agreement.

This legislation, if enacted, will authorize duty-free imports into the United States of finished motor vehicles and original equipment parts produced in Canada. Together with action already taken by the Government of Canada, its general effect should be to lead to expanded production and consumption of automotive products in North America, to the benefit of both the United States and Canada.

The Department of Commerce participated extensively with the Department of State in the long series of discussions and negotiations that led to the signing of the United States-Canadian Automotive Products Agreement by President Johnson and Prime Minister Pearson on January 16, 1965. The Department's specific concern, of course, was how best to preserve the very substantial market in automotive products that U.S. exporters have had in Canada, in the face of the Government of Canada's strong determination to increase Canadian production of automobiles and automobile parts.

The key statistics and factors are these: In 1963 and 1964 U.S. automotive exports to Canada averaged around \$600 million, whereas our automotive imports from Canada in 1963 and 1964 averaged around \$60 million. Figures for 1965 show that U.S. automotive exports to Canada during the first half of 1965 amounted to about \$385 million and automotive imports from Canada over the same period amount to about \$59 million. Thus we have had, and continue to have an exceptionally favorable balance of trade in the automotive sector. As a matter of fact, these U.S. exports to Canada have represented approximately a 40-percent share in the total Canadian automotive market, which averaged about \$1.5 billion in factory sales in 1963 and 1964, compared with total U.S. factory sales during the same period of about \$24 billion annually.

Mr. Chairman, with your permission I would like to introduce in the record at this point a study which has been made by the Department of Commerce entitled "Profile of the North American Automotive Industry."

Mr. Chairman, this has been revised as of September 1965 to bring it up to date, and I think it contains a great deal of factual information that will be helpful to the committee in its consideration of this measure.

May we have your permission, sir?

Senator LONG. Without objection.

Secretary CONNOR. Yes.

Senator LONG. It will appear at the close of your statement.

Secretary CONNOR. Thank you very much, Mr. Chairman.

This study is objective and factual and I think will be helpful to the committee in seeing the whole picture of the automotive industry in the United States and Canada and its component parts.

The Canadian Government has long been concerned with the relatively low ratio of production in Canada to consumption in Canada, and has adopted a number of measures intended to boost Canadian production. For example, until the agreement was entered into, it imposed a duty on imports of finished vehicles of 17½ percent, and duties on original equipment and replacement parts of up to 25 percent. It also imposed a "content requirement," under which finished automobiles produced in Canada were in effect required to be 60 percent of Commonwealth origin. More recently, in 1962, the Government of Canada had instituted a duty remission plan, under which duties paid on automotive imports into Canada were rebated to firms which increased their automotive exports from Canada. This was effective in increasing automotive exports from Canada to the United States sharply—from \$30 million in model year 1963 to \$68 million in 1964. However, this duty remission scheme provoked the concern of U.S. parts producers, who instituted a demand for imposition of countervailing duties under section 303 of the Tariff Act of 1930.

In the light of these circumstances, it seemed clear that the Government of Canada was determined to increase automotive production in Canada—either by continuation of the duty remission scheme, or if that were nullified by the imposition of countervailing duties, by other means such as increasing the Canadian content requirement, or increasing import duties. Each of these techniques perhaps offered some prospect of achieving the Canadian goal, but only at the expense of cutting into U.S. automotive exports to Canada.

At the same time it also seemed possible that the Canadian objective could be achieved by other means which would be less detrimental to U.S. production. The American and Canadian automotive markets are quite similar, and thus have a potential for integration into a single market. For example, well over 90 percent of the motor vehicles assembled or manufactured in Canada are produced by the Canadian subsidiaries of the major U.S. manufacturers. Facilities owned by them on both sides of the border produce vehicles and components that are fully interchangeable. Of all cars purchased in Canada in 1963, 91 percent were U.S.-type models.

The model lines offered in Canada provide a variety nearly equal to that available in the United States. At the same time, costs and prices in Canada are significantly higher than in the United States. No doubt this is due partly to the protective measures taken by the Canadian Government for its automotive industry, but it is also due in considerable measure to the great disparity in production volume between the United States and Canada. As a result of its comparatively small size, the Canadian industry has not been able to achieve the large economies of scale that are characteristic of the American industry. This problem has been greatly complicated by the fact

that Canadian consumers nevertheless demand multiple model lines to choose from. For example, in 1964 Ford Motor Co. in its 1 assembly plant in Canada made some 71 different models of 5 distinct passenger lines. By contrast, just over the border Ford's River Rouge assembly plant produced only three models of the Mustang line.

In short, the structure of the Canadian auto industry as a separate independent industry, not integrated with U.S. production, has resulted in its being a relatively high-cost, low-volume industry. It is this aspect of automotive production in North America which the United States-Canadian Automotive Products Agreement is aimed at. The purpose is to eliminate barriers to rationalized, low-cost production and thus ultimately to expand the North American automotive market for the benefit of both Canada and the United States. I believe the agreement gives reasonable promise of increasing consumption in Canada to such an extent that our existing export market can be preserved and at the same time the Canadian goal of increasing automotive production in Canada can be achieved.

Under Secretary Mann has discussed the main features of the agreement. However, it may be useful to comment briefly on those aspects of the overall arrangement which are designed to prevent the Canadian industry from being submerged by the transition to duty-free trade in automotive products. There are three such aspects:

1. The benefits of duty-free importation are limited to imports by or for the use of Canadian vehicle manufacturers who keep their proportion of assembly operation to sales in Canada and the dollar value of their production in Canada up to the 1964 model-year level. In addition the Canadian producers have agreed to increase Canadian value added

2. in proportion to the increase in their sales in Canada, plus

3. by a flat additional amount for all companies of approximately \$240 million during model-year 1968.

The effect of these provisions will be to maintain and, in fact, increase the level of Canadian production. However, I do not expect, and the 1965 figures I have just given do not indicate—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 favorable balance of trade with Canada.

In the long run Canadian consumption should increase substantially both as a direct result of the elimination of import duties between the United States and Canada, and as an indirect result of thereby stimulating more efficient use of existing and future plant capacities. Implementation of the agreement should lead to greater economies of scale in Canada, by making possible concentration of production of fewer models in each plant. At the same time, the removal of tariff barriers will allow the Canadian companies to supply their customers with a full range of other models from American plants. The increased efficiency resulting from these developments, and the savings in import duties, should make possible lower prices and an expanding market.

The U.S. parts industry, including many small independent producers, should also benefit from this program. It should benefit immediately from the termination of the duty remission scheme and the

opportunity to sell original equipment in Canada on a duty-free basis, and in the long run from the projected increase in total vehicle sales in the North American market.

While the overall outlook for the U.S. automotive industry, both in the near term and in the long run, has been enhanced as a result of the agreement we must, of course, reckon with the possibility of dislocation for particular firms and groups of workers, resulting from specific shifts within the general pattern of trade and production. Therefore, the legislation before you prescribes criteria for determining the eligibility of firms and workers to receive the adjustment assistance benefits provided for under the Trade Expansion Act of 1962. Secretary Wirtz will discuss these provisions in detail with you. I would like to state simply that I am satisfied they provide a proper means of meeting the adjustment assistance needs of firms and workers whose operations may be dislocated as a result of the agreement.

In conclusion, Mr. Chairman, let me repeat that through this agreement Canada has opted to move in the direction of a single North American automotive industry, and away from maintenance of a separate industry protected by high tariffs, with consequent higher costs and prices to the Canadian consumer. This seems to me a step in the right direction from the United States as well as the Canadian point of view, and I, therefore, urge congressional approval of this proposed implementing legislation.

(The "Profile of the North American Automotive Industry" referred to follows:)

PROFILE OF THE NORTH AMERICAN AUTOMOTIVE INDUSTRY

Prepared by Department of Commerce; Revised September 1965

The automotive industries in the United States and Canada form a single great North American industry. The major producers of motor vehicles in the United States have corporate ties to Canadian producers and vice versa. The industry in Canada is a small-scale extension of the U.S. industry that has located north of the border to take advantage of tariff protection and other trade advantages in maintaining a share of the Canadian market, domestic and export. Subsidiaries of American companies account for over 90 percent of motor vehicle production in Canada. Canadian production has been largely concentrated in the final assembly of vehicles, with a substantial volume of parts and components imported from the United States. The integral nature of the industry is such that manufacturing facilities on both sides of the border produce many identical items that are virtually fully interchangeable.

The North American automotive industry is composed of those establishments whose primary products are motor vehicles—passenger cars, buses, and trucks—and of those establishments whose primary products are parts, components, and accessories which may be used either as original parts or as replacements. As used here, the term "automotive industry" includes not only the group of establishments which correspond, in the strictly definitional sense, to Industry 371, Motor Vehicles and Equipment (as classified in the U.S. Standard Industrial Classification, Revised), but also closely related industries, for example, automotive stampings and battery manufacturing, and segments of other industries which produce some motor vehicle parts and accessories.

The economy of the industry is geared to the market for the completed motor vehicle. The parts and components segment of the industry, supplying products to the motor vehicles segment, is dependent primarily on the market for finished automobiles, although one-quarter to one-third of its output goes into the replacement market. The production of parts and components varies between companies and changes from time to time, making comparisons and analyses of output and employment hazardous; furthermore, the plants of individual companies have differing patterns of production. For example, two establishments with identical shipments may have widely varying manpower requirements simply because one begins with a crude raw material whereas the other starts its manufacturing process with finished subparts. The producer of the final automobile

or truck may either produce or purchase parts, components, and assemblies as the economies of the free market direct. There is, therefore, considerable overlap between the motor vehicle segment of the industry and the parts segment.

Furthermore, the vehicle assembler may choose to manufacture or purchase parts or components either in the United States or Canada. The proximity of plants north and south of the Great Lakes makes transportation costs from part and component manufacturer to final assembler a minor consideration in parts procurement. More important factors in determining the source of parts include: product quality, standards, unit cost, and assurance of meeting delivery schedules. Thus, parts and components may be produced in either the United States or Canada for use in final production or assembly in either country.

However, this natural North American industry has been arbitrarily and uneconomically divided by tariff and other trade barriers into two disparate segments: a huge U.S. industry with total shipments (unduplicated) in 1963 valued at approximately \$24 billion (factory value) and total employment of about 1 million persons; and a much smaller Canadian industry with total shipments valued at approximately \$1.5 billion for model year 1964 (August 1, 1963-July 31, 1964) and total employment of about 80,000 persons. (About \$0.6 billion of the Canadian total value represents original equipment imported from the United States.) This disparity in size results, in turn, in substantially higher cost production in Canada.

THE U.S. INDUSTRY

The U.S. automotive industry as strictly defined (SIC 371, Motor Vehicles and Equipment Industry) is composed of over 2,000 establishments. These are plants which are primarily engaged in the manufacture of motor vehicles and/or parts and components. In the broader sense, the U.S. industry includes a much larger group, perhaps as many as 20,000 additional establishments, classified in other industries, which also produce some automotive parts and accessories.

The more than 2,000 establishments, employing an estimated 770,000 persons, constitute the core industry. This number together with an estimated additional 225,000 to 230,000 employed in other industries in the manufacture of automotive parts and accessories makes a total of approximately 1 million persons directly engaged in the manufacture of motor vehicles, parts, and accessories.

In 1963, the automotive industry as strictly defined (SIC 371) had a payroll of more than \$5 billion; its factory output value (unduplicated) amounted to \$24 billion; of which the value added by manufacture in the industry amounted to \$12.7 billion.

Factory output of vehicles, parts, and accessories in 1964 is estimated at about \$25.8 billion. Production by the industry, which is geared to vehicle sales, totaled more than 7.7 million cars and nearly 1.6 million trucks and buses, with an estimated total factory value of more than \$21 billion. In addition, sales of replacement parts in 1964 are estimated at \$3.3 billion, factory value; exports of parts and accessories, for assembly and replacement, totaled \$1.1 billion. Assembly plus parts produced by the vehicle manufacturers accounted for about 65 percent of the total value; the balance represents parts produced by the independent parts manufacturers.

TABLE 1.—Estimated total value¹ (unduplicated) of U.S. factory shipments of automotive products, SIC 371, 1962-64

[Values in billions of U.S. dollars]

Item	1962	1963	1964 preliminary	Percent of total in 1964
Passenger cars, domestic and export ²	\$14.6	\$16.2	\$17.0	66
Trucks, buses, truck tractors, etc., domestic and export ³	3.4	4.0	4.4	17
Parts for replacement, domestic ⁴	2.9	3.0	3.3	13
Exports of parts and accessories.....	.7	.8	1.1	4
Total, domestic and export.....	21.6	24.0	25.8	100

¹ Wholesale value of factory shipments; excludes excise tax.

² Based on value of vehicles with standard equipment, adjusted to include optional equipment.

³ Includes truck trailers; also truck and bus bodies valued at \$478 million in 1963.

⁴ Derived from AMA estimate (based on Federal excise tax receipts), adjusted to include an estimated value of tax exempt sales.

* Source: U.S. Department of Commerce, Business and Defense Services Administration (BDSA), based on Bureau of Census data and Automobile Manufacturers Association data.

This giant industry is one of the largest users of steel, glass, rubber, and upholstery material. It converts into finished products 22 percent of the steel, 60 percent of the rubber, 13.5 percent of the aluminum, and 50 percent of the zinc consumed in the United States.

U.S. passenger car production

Production and sales of passenger cars in the United States are at high levels. U.S. production of more than 7.7 million new passenger cars in 1964 exceeded the 1963 total of more than 7.6 million, marking the third successive year of increase. U.S. output of passenger cars in the first half of 1965 was more than 16 percent greater than output in the first half of 1964.

Passenger car production in the United States is concentrated in a few companies. Production by the respective companies over the past 3½ years is shown below:

TABLE 2.—*U.S. passenger car production, by company, calendar years 1962-64 and 1st half of 1964 and 1965*

[Thousands of cars]

Producing company	Calendar years			1st half ¹	
	1962	1963	1964	1964	1965
General Motors.....	3,741.5	4,077.3	3,956.6	2,521.2	2,829.7
Ford.....	1,935.2	1,963.9	2,145.9	1,184.5	1,431.3
Chrysler.....	716.8	1,047.7	1,242.2	616.7	768.2
American Motors.....	454.8	480.4	393.9	201.9	204.3
Studebaker.....	87.0	67.9	.6	.6	.....
Checker Motors.....	8.0	7.2	6.3	3.3	3.0
Total.....	6,943.3	7,644.4	7,745.5	4,528.2	5,236.5

¹ The figures shown in these 2 columns are cumulative through July 3. Corresponding totals for January-June period of the respective years are 4,435.6 and 5,161.7 (in thousands).

Source: Automobile Manufacturers Association ("Automobile Facts and Figures," 1965 edition, and AMA News Release, July 6, 1965).

U.S. truck and bus production

Nineteen U.S. manufacturers produce motor trucks and buses. The output of this segment of the industry has increased almost steadily since 1958 to a record of nearly 1.6 million trucks and buses in 1964. The factory value of truck and bus production, including separate truck and bus bodies, was estimated at \$3.9 billion in 1964. The number of trucks and buses produced in the first half of 1965 was more than 7 percent greater than the number produced in the corresponding period of 1964.

TABLE 3.—*U.S. factory sales of motor vehicles, calendar years 1961-64 and January-June 1964 and 1965*

[Thousands of units]

Type of vehicle	Calendar years				January-June	
	1961	1962	1963	1964	1964	1965
Passenger cars.....	5,542.7	6,933.2	7,637.7	7,751.8	4,387.3	5,118.2
Trucks and buses.....	1,133.8	1,240.2	1,462.7	1,540.5	855.7	911.6
Total.....	6,676.5	8,173.4	9,100.4	9,292.3	5,243.0	6,029.7

NOTE.—Figures may not add to totals because of rounding.

Source: Automobile Manufacturers Association (Automobile Facts and Figures, 1965 edition, and Statistical Bulletin, Aug. 2, 1965).

Location

The U.S. automotive industry is concentrated in the Middle West, although plants are scattered throughout the country. Over 90 percent of the employment in the industry is in 10 States: Michigan, Ohio, Indiana, New York, Wisconsin,

California, Missouri, Illinois, Pennsylvania, and New Jersey. Michigan ranks first by a wide margin. The major urban areas of the industry are Detroit, Cleveland, Chicago, and Toledo. The Canadian industry is concentrated across the border in Ontario.

Size of plants

The plants which are primarily engaged in manufacturing or assembling complete vehicles are limited in number, and employment is concentrated in large establishments. In March 1964, 95 percent of all U.S. workers employed in plants assembling complete motor vehicles were in plants employing 1,000 or more workers.

Among parts producers, plant size varies widely. Although the industry in general is composed of a large number of small plants, there are a relatively few large plants which account for the bulk of output and employment in the parts industry. About 40 percent of parts workers in the United States are in plants employing over 1,000 workers.

Employment

As already stated, the number of employees directly engaged in the production of automotive vehicles, parts, and accessories in the United States approximates 1 million: 770,000 in the primary industry and the other 225,000 to 230,000 in associated industries. This does not include indirect employment such as in mills producing sheet steel for bodies, nor does it include the workers involved in making such products as upholstery, nuts, and bolts. These million workers account for nearly 6 percent of total manufacturing employment. Production workers constitute 75 to 80 percent of the total.

Seasonal fluctuation

The automobile industry experiences year-to-year fluctuations resulting from the level of general economic activity and the availability of credit. In addition, there is a high degree of seasonal fluctuation of shipments and employment in the industry. Employment in August, the month before production on new models begins, is generally 10 to 20 percent below the annual average. Peak employment is reached in the November through January period. The segment of the industry producing completed vehicles and the segment producing parts and components experience similar seasonal trends; however, the latter does not have the severe trough in employment caused by model changeover.

Diversification

The major automobile companies are highly diversified. General Motors manufactures home appliances, aircraft engines, diesel-electric locomotives, and heavy earthmoving equipment, as well as participating in contracts in the national defense and space programs. Ford produces farm machinery, electrical products, and a variety of products for the space and defense programs. Chrysler manufactures air conditioners, marine and industrial engines, and has large Government contracts. These companies are also organized to finance the wholesale and retail sale of their products. American Motors produces electrical appliances in addition to its motor vehicles.

In the parts and components segment of the industry there is a sharp distinction between the plants and subsidiaries of the major automobile manufacturers and the independents. Affiliates of the large companies have a more certain market for their product, and benefit from the economies of longer production runs. With increased vehicle sales providing volume justification for new parts manufacturing facilities, they have accounted for an increasingly larger proportion of parts output—about 60 percent according to recent estimates. The industry produces a wide variety of products—some 15,000 parts are required for modern motor vehicles—so the product mix and range of operations differ considerably from plant to plant. Some plants are specialized and others diversified; some are part of the auto industry and others are more closely related to other industries. In short, conditions differ so markedly that no valid generalizations regarding the degree of diversification in the parts industry are possible.

Technology

The motor vehicle industry is a leader in introducing continuous automatic production. The industry has long been characterized by mass production, highly developed division of labor, and full use of conveyors and assembly lines. Economies of scale have been developed in the industry through long production runs and minimum machine downtime for retooling.

The production process in automobile manufacture is considered to fall largely into three stages: design, machining, and assembly. Those establishments in the industry which specializes in producing parts and components have little to do with the assembly stages of production, but concentrate on the design and machining stages. The manufacture of the large variety of products in this segment of the industry involves virtually all the processes used in the metalworking field, including casting, forging, stamping, machining, heat treating, plating, painting, assembling, welding, and inspecting. The integration of these operations varies from plant to plant.

Profits

The profit situation in the automotive industry compares favorably with that for the total manufacturing sector in general. Profits after taxes in 1963 were 6.9 percent of sales for the automotive industry compared with 4.7 percent for all manufacturing industries; automotive industry profits were 16.4 percent of stockholders' equity while all manufacturing industries profits were 10.1 percent. Capital expenditures in the automotive industry in the United States for 1963 are estimated to have been in the order of \$750 million.

CANADIAN INDUSTRY

The structure of the automotive industry in Canada is similar to that in the United States. There are 17 companies producing motor vehicles in Canada, 6 of which produce passenger cars principally and the remainder, trucks and buses exclusively. Canada is the world's sixth largest consumer of automotive vehicles and is a rapidly growing market. Sales in 1964 were estimated at 725,000 units compared to 655,000 in 1963 and 685,000 in 1962. In the same year, factory shipments of made-in-Canada motor vehicles reached a new high of 670,000 units, compared to 630,000 in 1963 and 512,000 in 1962, and in the first half of 1965 increased by about 12 percent compared to shipments in the first half of 1964. This Canadian production depended on the purchase of a large volume of imports (net) of original parts and components from the United States.

TABLE 4.—*Factory shipments of made-in-Canada motor vehicles, calendar years 1961-64 and January-June 1964 and 1965*

(Thousands of units)

Type of vehicle	Calendar years				January-June	
	1961	1962	1963	1964	1964	1965
Passenger cars	326.3	430.7	532.0	558.9	356.6	393.9
Trucks and buses.....	63.6	81.4	98.5	110.6	65.6	78.3
Total.....	389.9	512.0	630.4	669.5	422.1	472.2

NOTE.—Figures may not add to totals because of rounding.

Source: Dominion Bureau of Statistics.

U.S.-owned companies account for well over 90 percent of total vehicle manufacture or assembly in Canada. Non-North American auto assembly in Canada is limited at present to one Volvo plant, opened in 1963, with a capacity of about 8,000 units. Assembly facilities for Renaults and Peugeots, with a combined capacity for about 8,000 to 10,000 units, are scheduled to begin operations in Canada this year. The Japanese companies Toyota and Izuzu have recently entered into arrangements for assembly in Canada, with an anticipated combined capacity of 10,000.

At present, there are about 165 manufacturers in Canada, primarily engaged in parts production. Complex parts requiring heavy investment for production are generally imported from the United States. A notable exception is automatic transmissions now produced in Canada by one of the vehicle manufacturers. The principal parts and components produced in Canada are engines, differentials, standard transmissions, steering gears, axles, wheels, radiators, piston rings, self-starters, spark plugs, batteries, and laminated glass, as well as various electrical components.

Canadian employment

The automotive industry is the second largest manufacturing employer in Canada, with an average 41,000 employees engaged in motor vehicle production in 1964 and another 40,000 in the parts industry. Both the automobile parts and component manufacturing and the assembly segments of the Canadian industry are growing rapidly. Canadian automotive industry employment in 1964 increased 12 percent over 1963, when employment in the vehicle and parts manufacturing segments was 37,600 and 35,000, respectively.

Canadian wages and unit labor costs

Earnings in the Canadian automotive industry averaged \$2.53 (Canadian dollars) per hour in 1964. Although earnings of Canadian automobile workers are about 75 percent of that of U.S. workers, smaller production runs and lack of economies of scale more than offset the wage differentials in unit labor costs.

U.S. investment in Canada

Investment by Canadian subsidiaries of U.S. companies in the Canadian automotive industry has been extensive and expanding in recent years, as indicated by the following table:

TABLE 5.—Investment by subsidiaries of U.S. companies in the Canadian transportation equipment industry

Year:	Cumulative value (millions)	Year—Continued	Cumulative value (millions)
1950	\$160	1962 (estimated)	613
1957	398	1963 (estimated)	678
1961 (estimated)	593		

TABLE 6.—U.S. foreign trade in automobile products¹—Total and with specified countries, 1964

[Thousands of U.S. dollars]

Country	Exports from United States ²				Imports into United States ³				Export balance total
	Passenger cars	Trucks and buses	Parts and accessories	Total	Passenger cars	Trucks and buses	Parts and accessories	Total	
Canada.....	45,435	15,167	593,458	654,060	18,781	4,658	52,207	75,645	578,416
European Economic Community, total.....	33,507	9,063	63,144	105,715	431,066	12,179	35,677	478,941	-373,226
West Germany.....	6,928	886	20,572	28,340	381,612	6,089	29,781	417,442	-389,102
France.....	4,723	831	13,270	21,224	33,393	36	2,775	36,205	-14,981
Italy.....	549	889	5,651	8,390	15,662	59	1,543	17,284	-8,894
United Kingdom.....	120	319	20,520	21,800	98,900	861	13,083	112,904	-91,085
Sweden.....	10,146	644	16,179	26,969	28,816	13	1,776	30,105	-3,136
Japan.....	9,697	291	4,301	13,689	15,354	2,343	2,126	19,823	-6,134
Other countries.....	226,081	327,393	-379,372	934,793	136	49	1,105	1,291	931,503
Total.....	824,286	852,682	1,076,968	1,755,036	592,633	20,102	-105,973	718,709	1,036,327

¹ Figures include new and used vehicles.

² Exports of domestic merchandise, excluding special category shipments. Export classifications covered by the figures shown include the following:

Passenger cars: Includes exports of both new passenger cars and chassis (schedule B-79070) and used passenger cars (schedule B-79070). Used vehicles accounted for 3 percent of the total. Note that when making comparisons with import statistics, imports of chassis are not classified with vehicles of the same type but together with bodies as imports of parts under TSUS 692.20 and 692.22.

Trucks and buses: Includes exports of trucks, buses, and various special purpose vehicles, both new and used, and chassis, comprising schedule B numbers 79011, 79015, 79019, 79023, 79027, 79031, 79033, 79035, 79039, 79043, 79063, 79065, 79069, 79113, and 79130. See note above.

Parts and accessories: Includes the following schedule B numbers: 20861—auto V-type fan belts and belting; 54580—asbestos clutch facing; 54583 and 54587—asbestos brake lining; 70130—batteries; 70799—auto radios; 70903—spark plugs; 70922—wiring, lighting, and ignition equipment; 70910—ball bearings; 70920—roller bearings; 79136—trailers, truck or truck-tractor; 79139—commercial trailers; 79142—parts and accessories for commercial trailers; 79151—diesel engines for assembly; 79153—gasoline engines for assembly; 79156—auto engines, for assembly; 79159—diesel truck and bus engines, for replacement; 79162—gasoline engines, for replacement; 79165—bodies, for assembly; 79168—leaf springs; 79170—shock absorbers; 79261—parts and accessories, n.e.c. for assembly; 79262—parts and accessories, n.e.c., for replacement, or manufacture into larger components; 79271—heaters, air conditioners, specially fabricated parts, n.e.c. except for assembly; and 79273—accessories, n.e.c., and specially fabricated parts, n.e.c. except for assembly. Excludes tires and tubes.

³ Imports for consumption. Import classifications covered by the figures shown include the following:

Passenger cars: Includes TSUS 692.1020 passenger cars, new, and 692.1040, passenger cars, used. Imports of used cars are negligible, except from Germany (\$12,600,000) and the United Kingdom (\$342,000). Note that when making comparisons with export statistics, chassis imports are classified together with bodies, under TSUS 692.20 and 692.22 as auto parts, but exports of chassis are classified with vehicles of the same type in schedule B-79011-79065.

Trucks and buses: Includes TSUS 692.0620, trucks; 692.0540, buses; 692.1060, motor vehicles, other than passenger; and 692.15, special-purpose vehicles (cranes, wreckers, concrete pavers, etc.). See note above.

Parts and accessories: Includes TSUS 680.4430, engines (piston type) for road vehicles; 682.9000, springs for motor vehicles; 683.6020, generators; 683.6040, starter motors; 683.6060, spark plugs; 683.6380, other electrical; 692.2000, chassis and bodies for trucks and buses; 692.2200, chassis and bodies for passenger cars; 692.2300, parts, n.e.c.; 711.9020, taximeters; 711.9040, parts for taximeters; and 711.9200, speedometers. Excludes tires and tubes.

Note.—The above figures are not all-inclusive inasmuch as some automotive products as well as other items destined for automotive use are not separately delineated in U.S. trade classification systems and, therefore, are not separately available in U.S. foreign trade statistics.

Detail may not add to totals because of rounding.

Source.—U.S. Department of Commerce, U.S. Export Statistics, Report FT 410, 1964 Annual (June 1965), and U.S. Imports, Tariff Schedules Annotated by Country, 1964 Annual (July 1965); and Automobile Manufacturers Association.

The Canadian subsidiaries of the major U.S. automobile producers will probably invest an aggregate of \$135 million annually in Canada during the next 2 years. This represents 8 percent of their anticipated investment in North America during this period and 5 to 6 percent of their total worldwide investment (compared with third country investments which represent 25 percent of the worldwide figure).

United States-Canadian trade patterns

In terms of value of total U.S. trade with all countries and in all products, Canada is the single most important foreign customer for U.S. exports as well as our leading foreign supplier. Total U.S. exports (excluding special category exports) in 1964 amounted to \$24.4 billion, of which \$4.7 billion, or about 20 percent, went to Canada. Total U.S. imports (general imports) in 1964 were valued at \$18.7 billion, of which Canada supplied \$4.2 billion, or 23 percent. The result was an overall trade surplus of about \$500 million in the trade with Canada in 1964. During the first 6 months of 1965, total U.S. exports of all products (excluding special category) to all countries amounted to \$12.6 billion, of which nearly \$2.7 billion were exports to Canada. Total U.S. imports of all products from all countries amounted during the same period to \$10.1 billion, of which nearly \$2.8 billion were imports from Canada.

On the Canadian side, the United States generally accounts for 65 to 70 percent of Canadian imports and about 55 percent of Canadian exports.

U.S. automotive trade with all countries

The United States is a net exporter of automotive products worldwide. In 1964, U.S. exports of these products totaled more than \$1.7 billion, while imports were more than \$0.7 billion, resulting in an export balance of about \$1 billion. In bilateral automotive trade, the United States shows a deficit with most major producers such as the European Economic Community, United Kingdom, and Japan; however, in the case of Canada, the United States enjoys a sizable automotive trade surplus. The United States also maintains a substantial export balance in automotive product trade with the rest of the world.

The U.S. automotive exports to all countries have risen considerably in recent years: from \$1.3 billion in 1962 to \$1.7 billion in 1964.

Following some fluctuation in the early sixties, U.S. automotive imports also rose substantially in this period: from \$525 million in 1962 to an estimated \$719 million in 1964. These figures are not strictly comparable over the period in view of 1963 tariff reclassifications.

United States-Canadian automotive trade

Two basic aspects of United States-Canadian automotive trade are a sizable U.S. trade surplus with Canada, and a greatly expanded trade in both directions in recent years.

The automotive trade pattern between the United States and Canada is unique. The bulk of United States-Canadian trade in both directions is in automotive parts and accessories, most of which are for use in the production of new vehicles. This is in sharp contrast to U.S. automotive trade patterns with other countries, and the general world automotive trade pattern.

For example, in 1964, U.S. imports of automotive products from the European Economic Community totaled \$479 million, of which parts accounted for \$36 million. These parts, which amounted to a very small proportion of the trade, were strictly for use as replacement parts for repair of European vehicles in the United States. Similarly, parts imports from the United Kingdom—again destined for replacement—amounted to only \$13 million out of total automotive imports of \$113 million from the United Kingdom.

TABLE 7.—United States-Canada automotive trade¹

(In millions of U.S. dollars)

Year	Canadian imports from United States		Canadian exports to United States		Canadian import balance, total
	Automotive products, total	Parts and accessories	Automotive products, total	Parts and accessories	
1960.....	410	319	7	4	403
1961.....	383	314	11	9	373
1962.....	480	406	12	9	468
1963.....	563	517	33	30	530
1964 ²	653	591	89	65	664

¹ Because of changes in U.S. trade statistics resulting from the changeover to the TSUS series, this table is based on Canadian trade statistics. The figures are not strictly comparable over the period shown because of changes in classification and differences in coverage.

² Preliminary estimates of Canadian imports for 1964 have been revised on the basis of data now available in the printed source.

Source: Dominion Bureau of Statistics, "Trade of Canada."

Senator LONG. Thank you very much.

Now, Secretary Wirtz, will you present your statement and then we will proceed to the questions we want to ask you.

STATEMENT OF HON. WILLARD WIRTZ, SECRETARY OF LABOR— Resumed

Secretary WIRTZ. Thank you, Mr. Chairman, and members of the committee. My statement is on file and if it is the pleasure of the committee I shall be glad to summarize it in 5 minutes.

Senator LONG. Would you do that? Please be sure not to miss the main points because I haven't had a chance to read it.

Secretary WIRTZ. Whatever you want.

Senator LONG. As long as you don't miss the points you want to make, if you summarize it be sure you get your main points in because as you know some argument about some of the impact that this agreement might have on some American labor has been made.

Secretary WIRTZ. All right.

Senator LONG. But if you think you can summarize it I would appreciate it.

Secretary WIRTZ. I will try with the request that the full statement be made a part of the record.

Senator LONG. The full statement will be printed.

Secretary WIRTZ. I make this suggestion, Mr. Chairman and members, because my testimony simply complements and supplements that of Secretary Mann and Secretary Connor and refers particularly to one aspect of this matter. As both Secretary Mann and Secretary Connor have indicated we expect to see a substantial increase in production as a result, and I mean U.S. production, as a result of the enactment of this legislation. We do recognize, as Secretary Connor has indicated that there will be some dislocations, that although there will be a net increase in production, a net increase in jobs, there will be possibly some dislocation.

Therefore, H.R. 9042 provides that where there is specific dislocation there will be provision made to protect against its impact.

The whole matter can be summarized very briefly, Mr. Chairman and members of the committee, by saying that what H.R. 9042 does is to apply the special adjustment provisions of the Trade Expansion Act of 1962 to this particular situation. There are the same protective measures provided, both with respect to firms and with respect to workers which may be affected by the displacement.

There is a different procedure for the identification of those situations in which there is need. The procedure as contemplated by H.R. 9042, is that in a case where there is an alleged dislocation resulting from the effect of this agreement, under the provisions of this statute, there will be, first, a finding of fact by the Tariff Commission, and then a decision by the President of the United States, with the contemplation, reflected in the legislative history of this bill already, that that function would be exercised for the President by a three-man Board which will be comprised of the Secretary of Treasury, the Secretary of Commerce, and the Secretary of Labor.

There would be a determination in each case which was brought to the attention of the President and this Board. There would be a determination, first, of whether there had been a dislocation; second, of whether that dislocation results from the effects of this particular agreement.

If there was, if there should be, such a determination, then there would be provision for benefits to the firm in terms of Federal loans or of tax advantages or of technical assistance, and to the workers who might be found affected, in terms of adjustment allowances which would be roughly 65 percent of their regular wage, and I oversimplify that point.

My testimony, then, Mr. Chairman, and members of the committee, can be this shortly summarized: Recognizing that there will be an increase in production, recognizing at the same time there may be some dislocation so far as particular firms and particular groups of workers are concerned, H.R. 9042 establishes procedures and protective arrangements to cover those situations of particular dislocation. And the pattern is precisely that of the Trade Expansion Act of 1962, except that there are procedures which will assure the application of these provisions in a way that has not been true characteristically of the administration of the Trade Expansion Act.

Finally, Mr. Chairman, in, and responsive to some of the discussion before the committee yesterday, with a question being raised as to whether this will work to the advantage and how this will work to the advantage of U.S. producers and workers, may I say very shortly: Our analysis overnight indicates that in terms of my particular responsibility as it relates to jobs, we are talking about what is probably the preservation of between 25,000 and 30,000 jobs. Those are the jobs in the automotive and in the parts industry, which are today dependent upon exports to Canada. Those jobs were seriously threatened by the indicated progress of the stroke and counterstroke development of import duty policies and tariff policies between the two countries. I think it is a fair statement that H.R. 9042 probably has the effect of protecting between 25,000 and 30,000 U.S. jobs. That is all in my report. That also means the protection of the producers, the employers who are involved to that same extent.

And so I urge as strongly as I can that the provisions of H.R. 9042 are essential to the continuation of this part of the industry, to the protection of these jobs and I say specifically that in my judgment the protective provisions covering dislocation are thoroughly adequate to protect those situations in which there may be particular dislocations.

Senator LONG. Gentlemen of the committee—are you through now, Mr. Secretary?

Secretary WIRTZ. Yes.

(The full statement of Mr. Wirtz follows:)

STATEMENT OF W. WILLARD WIRTZ, SECRETARY OF LABOR

Mr. Chairman and members of the committee, I welcome this opportunity to appear in support of H.R. 9042, the Automotive Products Trade Act of 1965.

A million American workers are currently engaged in the manufacture of automotive equipment, parts, and accessories. A substantial number of these jobs would have been threatened by the developments which would almost certainly have followed the imposition of countervailing duties on Canadian automotive exports to the United States. The solutions contained in the agreement between the United States and Canada and in H.R. 9042, which implements the agreement, will benefit the workers, the firms, and the consumers in both countries.

We expect that there will be an increase in activity as the United States-Canadian agreement becomes fully operative. However, we do recognize that during the transitional period there may be dislocations which will adversely affect particular firms and particular groups of workers. Since the removal of the trade barriers between the United States and Canada is in the interest of the Nation as a whole and removes from firms and workers the protection previously afforded them by the tariff, we have the same clear obligation to provide adjustment assistance for any of these dislocated firms or groups of workers as was recognized in the Trade Expansion Act of 1962 (TEA).

The forms and amounts of adjustment assistance in H.R. 9042 are the same as those in the TEA. The general outlines of adjustment assistance are, therefore, familiar to the members of the committee.

This assistance includes cash readjustment and relocation allowances, training and full testing, counseling and job placement assistance. The cash readjustment allowances are set at 65 percent of the workers' average weekly wage or 65 percent of the national average weekly wage in manufacturing, whichever is the lower. This establishes a current maximum of \$87 per week. These allowances are normally available for a period of 52 weeks but can be extended for a limited period in order to complete training courses or if the worker was over 60 when he was separated. If the worker desires and is eligible for relocation, he receives monetary assistance to allow him to move himself and his family to an area where he has a permanent job waiting for him.

H.R. 9042 differs from the TEA in the standards for determining eligibility to apply for this assistance. The economic criteria established in H.R. 9042 have been framed to meet the unique circumstances of the action taken and the special characteristics of the industrial complex with which we are dealing. The facts are:

1. The United States-Canadian automotive products agreement is designed to eliminate some of the major barriers limiting optimum efficiency of a single industry producing and selling the same products on both sides of the border. It offers the rare opportunity for two-way free trade in a major manufactured product.

2. Dislocation may result not only from increased imports into the United States, the usual cause for concern in trade legislation, but also from shifts in the pattern of exports to Canada and from internal shifts within the industry. These shifts will reflect the actions of individual firms to take advantage of the opportunity for increased efficiency provided by the agreement.

3. H.R. 9042 provides for an immediate reduction to zero in the custom duties on a selected class of products. This contrasts with U.S. trade legislation for the past decade where duty reductions were staged over a period of years. Staging is, itself, a type of adjustment mechanism.

4. The process of adjustment to this action will, in all likelihood, be completed within a comparatively short span of years. A terminal date of June 30, 1938, is provided for filing petitions for eligibility to apply for adjustment assistance under the special provisions of H.R. 9042.

Where dislocation occurs, section 302(b) provides a set of economic conditions or criteria, the meeting of which creates a presumption that the operation of the agreement has been the primary factor in causing the particular dislocation. These conditions are, in brief, a decrease in U.S. output of the automotive product produced by the firm (or appropriate subdivision) and a change in the pattern of trade with Canada in this product. The latter change may take the form of an increase in imports of the product from Canada or a decrease in exports of the product to Canada.

The bill further provides that when a petition is filed with the President by a firm or group of workers for a determination of eligibility to apply for adjustment assistance, the President shall request a report from the Tariff Commission as to the facts; and for such purpose, the Commission is to conduct an investigation and may hold a public hearing. On the basis of the facts presented in the Commission's report and after seeking advice from the Departments of Commerce, Labor, Treasury, the Small Business Administration, and other agencies as appropriate, the President makes the determinations with respect to the eligibility of the firm or the group of workers to apply for adjustment assistance.

In the case of a group of workers, dislocation will normally be assumed when unemployment or underemployment in a firm, or an appropriate subdivision, affects 5 percent of the workers or 50 workers, whichever is less. At the same time it is recognized that a large number of workers are in plants with fewer than 50 workers. Accordingly, there may be cases where the layoff of as few as three workers in a firm, or appropriate subdivision, would constitute a significant number or proportion of the workers for the purpose of determining dislocation.

In the case of a firm, dislocation means injury of a serious nature, which may be evidenced by such conditions as idling of productive facilities, inability to operate at a level of reasonable profit, or unemployment or underemployment of its workers.

The simultaneous evidence of dislocation, an appreciable decrease in U.S. production, and an appreciable adverse change in the balance of trade in the product will, in most instances provide the basis for an affirmative determination of eligibility to apply for assistance. Dislocation arising from factors other than the operation of the agreement is unlikely to bring the specified conditions into simultaneous play.

We recognize, however, that no set of economic criteria can be perfect. There is always the possibility that a specific dislocation may have resulted from conditions unrelated to the agreement. Accordingly, section 302(c) provides that if the President finds the criteria are met, he shall certify the firm or group of workers as eligible to apply for adjustment assistance unless he determines that the operation of the agreement has not been the primary factor in causing the dislocation.

On the other hand, the economic criteria may not cover all meritorious cases. Section 302(d) covers such situations. If the President finds that dislocation has occurred but that either or both of the economic conditions have not been met, section 302(d) provides that he shall determine whether the operation of the agreement has nevertheless been the primary factor in causing the dislocation. This could occur, for example, if there were a shift in the product-mix across the border within an individual firm resulting in dislocation, but not in a net change in trade.

It is intended that the "primary factor" would have to be a factor greater in importance than any other single factor in a given case. But it would not have to be greater than all the other factors combined or any combination of them.

Section 302(b) of the bill requires an appreciable change in each of the economic conditions. Normally a change of 5 percent in production, imports, or exports would be considered "appreciable" for this purpose. But we recognize that there will be cases where small percentage changes will be large in absolute terms and therefore appreciable.

The bill provides that determinations with respect to eligibility to apply for adjustment assistance shall be made by the President. It is specially provided that the President may delegate his authority under section 302 to appropriate officials. As the House Committee on Ways and Means was advised, he plans to delegate this authority to a board consisting of the Secretaries of Treasury, Commerce, and Labor.

In the case of individual workers a certification of eligibility to apply for assistance does not mean that any individual will automatically get the benefits of the Trade Expansion Act. In order to be eligible to receive adjustment assistance, the individual worker must be a member of the certified group of workers and his unemployment must have commenced within the period set forth in the act. He must also meet stringent requirements with respect to his past employment—not only must he have been gainfully employed for at least half of the 3 years prior to his layoff, but he must also have been working in "dislocated" firms for at least 26 of the 52 weeks immediately prior to his layoff. Finally, the worker must, generally speaking, satisfy the availability and disqualification provisions of his State unemployment insurance law.

Financial, tax, and technical assistance may be made available to dislocated firms. They may receive direct Federal loans of Federal participation in, or guarantee of, private loans. Firms may be given the opportunity to carry back current losses for income tax purposes for 5 years instead of 3 years. Firms may also be provided with technical assistance in order to develop and carry out effective adjustment proposals.

Since the duty changes provided by the bill may be retroactive to January 1965, the adjustment assistance provisions also have a similar retroactive effect.

In considering the adjustment assistance provisions in title III of the bill, the committee should be aware that a substantial number of the workers who could be affected are covered by labor-management contracts that provide supplemental unemployment benefits (SUB). In computing these benefits account is taken of State unemployment insurance and similar Federal payments. To the extent that the adjustment allowance provided by this bill is considered as a similar Federal payment, it will be deducted from the SUB payment. The Ways and Means Committee stated in its report that it is reasonable to consider only so much of the adjustment allowance as represents 50 percent of the average weekly wages of dislocated workers or the weighted (by covered employment) average maximum State unemployment insurance benefits for workers without dependents, whichever is the lesser, as a substitute for State unemployment insurance. The amount of adjustment allowances in excess of such 50 percent or average maximum unemployment benefits is compensation to such dislocated workers for the loss of employment opportunities they would have had in the absence of the agreement (H. Rept. 537 on H.R. 9042, p. 12). The Department of Labor concurs fully with the statement of the House Ways and Means Committee.

Section 303 of the bill provides that the President will make recommendations to the Congress in regard to legislative provisions concerning adjustment assistance for firms and workers as may be appropriate to the anticipated economic impact of any new agreements which may be entered into under section 202 of the bill.

Section 304 of the bill authorizes the appropriation of funds to carry out the adjustment assistance provisions of this title. At an appropriate time, and taking account of the fact that the elimination of tariff barriers and resulting dislocations may be retroactive to last January, we will submit to the Congress a request for necessary funds.

I should like to conclude by quoting from President Johnson's letter transmitting the proposed legislation to implement the United States-Canadian Automotive Products Agreement:

"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."

H.R. 9042 provides the safeguards for workers and firms which are necessary and desirable in the circumstances. I strongly urge support of its enactment.

U.S. DEPARTMENT OF LABOR,
April 22, 1965.

MANPOWER HIGHLIGHTS OF THE NORTH AMERICAN AUTOMOTIVE INDUSTRY

The production of automotive vehicles parts and accessories in the United States requires the services of approximately 1 million workers. This employment is divided into three main groupings:

1. The assembly of complete vehicles.
2. The production of parts in industries whose major output is for the automotive industry.
3. The production of parts and accessories in industries whose major output is not automotive products—for example, radios, storage batteries, ignition equipment, and glass.

In 1964 the section of the automotive industry producing complete motor vehicles employed slightly less than 315,000 workers in about 170 plants. Most of the plants were extremely large complexes devoted to the assembly of parts into complete passenger vehicles.

The production of bodies and parts gave employment to some 450,000 people in over 1,900 plants (table 1). Although almost 80 percent of automotive parts employment was in large plants (over 500 workers per plant) there are more than 1,500 establishments with fewer than 100 workers each. Despite the preponderance of employment in the very large plants, almost half the plants in the automotive industry had less than 20 workers.

In addition to these 770,000 workers in industries whose major products are automotive equipment, there are approximately 200,000 to 250,000 others in nonautomotive industries producing products used in making automobiles. Since the economics of many establishments in these particular nonautomotive industries are geared to motor vehicles markets, they must be included in any general consideration of the economics of the automobile industry. We estimate that these workers are employed in about 10,000 different establishments (table 2).

TABLE 1.—United States, all employees

(In thousands)

Industry	1958	1959	1960	1961	1962	1963	1964
Motor vehicles and equipment (total).....	606.5	692.3	724.1	632.3	691.7	745.2	771.1
Motor vehicles.....	242.2	272.5	295.3	253.7	275.2	301.4	313.5
Passenger car bodies.....	54.7	60.5	65.9	56.2	61.1	61.1	58.2
Truck and bus bodies.....	25.4	28.8	30.9	29.6	30.8	33.0	33.8
Motor vehicle parts and accessories.....	267.7	309.4	313.0	276.3	304.2	328.3	343.3

PRODUCTION—WORKER AVERAGE HOURLY EARNINGS

Industry	1958	1959	1960	1961	1962	1963	1964
Motor vehicles and equipment.....	\$2.55	\$2.71	\$2.81	\$2.86	\$2.99	\$3.10	\$3.21
Motor vehicles.....	2.62	2.79	2.89	2.95	3.06	3.20	3.31
Passenger car bodies.....	2.71	2.82	2.96	3.06	3.19	3.31	3.38
Truck and bus bodies.....	2.15	2.29	2.38	2.42	2.51	2.55	2.60
Motor vehicle parts and accessories.....	2.52	2.68	2.76	2.82	2.95	3.07	3.18

PRODUCTION—WORKER AVERAGE WEEKLY HOURS

Industry	1958	1959	1960	1961	1962	1963	1964
Motor vehicles and equipment.....	39.7	41.1	41.0	40.1	42.7	42.8	43.0
Motor vehicles.....	39.7	41.2	40.9	40.6	43.5	43.5	43.5
Passenger car bodies.....	42.6	40.4	41.9	39.4	43.2	43.0	42.1
Truck and bus bodies.....	39.7	41.0	40.6	39.8	40.8	41.2	41.0
Motor vehicle parts and accessories.....	39.1	41.1	41.0	39.9	42.1	42.4	43.2

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employment and Earnings."

TABLE 1-A.—Motor vehicle and equipment industries, reporting units and total employment by size, March 1964

Size of establishment (Workers)	Complete vehicles				Bodies, parts and equipment			
	Establishments		Employment		Establishments		Employment	
	Number	Cumulative percent	Number	Cumulative percent	Number	Cumulative percent	Number	Cumulative percent
0 to 9.....	33	20	116	(0)	566	29	2,585	1
10 to 19.....	17	29	251	(0)	358	48	5,066	2
20 to 49.....	13	37	433	(0)	382	68	11,639	4
50 to 99.....	7	41	472	(0)	214	79	14,724	8
100 to 249.....	13	49	1,833	1	156	87	27,208	14
250 to 499.....	11	56	8,725	2	98	92	36,028	22
500 to 999.....	10	61	7,212	4	55	95	39,163	31
1,000-plus.....	65	100	303,182	100	93	100	310,397	100
Total.....	169	.....	322,224	.....	1,924	.....	446,805	.....

¹ Less than 0.5 percent.

Source: Unemployment insurance data.

TABLE 2.—Nonautomotive industries producing parts and accessories

SIC	Employment in 1958	
	Industry	Automotive products
3011 Tires and inner tubes.....	89,400	71,000
3461 Metal stampings.....	125,600	28,600
3429 Hardware, not elsewhere classified.....	88,200	26,000
3694 Engine electrical equipment.....	39,800	25,000
3211 Flat glass.....	21,200	15,000
3599 Machine shop products.....	115,500	13,000
3691 Storage batteries.....	14,900	10,500
3642 Lighting fixtures.....	47,300	7,100
3821 Mechanical measuring devices.....	60,000	4,500
3651 Radio and television receiving sets.....	66,500	4,200
3493 Steel springs.....	6,800	3,300
3641 Electric lamps (bulbs).....	21,500	2,800
3069 Fabricated rubber products, not elsewhere classified.....	119,600	4,850
Totals.....	1,806,300	1,215,760

¹ In 1963 employment in these industries was 894,000; if the 1958 ratios of automotive products employment to total employment were still applicable, automotive products employment in 1963 was approximately 225,000 to 230,000.

Sources: Department of Commerce, Bureau of the Census, "1958 Census of Manufactures" and "1963 Census of Manufactures—Preliminary Report."

The total industry thus accounts for about 1 million jobs or nearly 6 percent of total manufacturing employment. The million workers does not include indirect employment such as in the mills producing sheet steel for bodies nor does it include the workers involved in making such products as upholstery, nuts, and bolts.

The automobile industry, a leader in introducing continuous automatic production, is characterized by mass production, highly developed division of labor, and full use of conveyors and assembly lines. Economies of scale have been developed in the industry through long production runs and minimum machine downtime for retooling. Therefore, small establishments and job shops with small volume orders are at a definite competitive disadvantage in this industry. The production process in automobile manufacture is considered to fall largely into the three stages of design, machining, and assembly.

The earnings of production workers in the motor vehicle and equipment industry are among the highest in manufacturing. Average hourly earnings in 1964 were \$3.20, 18 percent higher than the figures for all durable goods manufacturing and 26 percent higher than the figure for all manufacturing. Ap-

proximately 7 percent of the all-manufacturing payroll in 1963 went to automotive workers (table 1).

The unemployment rate in the motor vehicle and equipment industry was 3.4 percent in 1964, compared with 4.9 percent for "all manufacturing." In 1963 the rate was 3.7 percent compared with 5.7 percent for "all manufacturing."

The majority of workers producing completed cars and trucks are engaged in highly repetitive semiskilled jobs such as assemblers and inspectors on the assembly line. Occupations which require substantially more skill and training and which employ fairly large numbers of workers include tool and die makers, electricians, machine-tool operators, and machinery repairmen.

Nearly all production workers in this sector are represented for collective bargaining purposes by the UAW. Over 40 percent of the workers are employed within the Detroit metropolitan area, and more than 50 percent are located in the State of Michigan. Other important concentrations of employment are Ohio, 8 percent; Wisconsin, 7 percent; California, 6 percent; Missouri, 5 percent (table 3).

Those establishments of the industry specializing in producing parts and components have little to do with the design or assembly stages of production, but concentrate on the machining stage. The manufacture of the large variety of products in this segment of the industry involves virtually all the processes used in the metalworking field, including casting, forging, stamping, machining, heat treatment, plating, painting, assembling, welding, and inspecting. The integration of these operations varies from plant to plant.

In the parts and components segment of the industry there is a sharp distinction between the plants and subsidiaries of the major automobile manufacturers and the independents. Affiliates of the large companies have a more certain market for their product and benefit from the economies of larger production runs. The affiliates of the large automobile makers are becoming a larger portion of the parts industry. Both the large company affiliates and the independents produce for the original and the replacement market. The volume of production of parts for assembly into motor vehicles is three to four times that for the replacement market. Nevertheless, production of replacement parts is substantial and provides a growing market for manufacturing establishments of the United States.

TABLE 3.—*Employment by State in the motor vehicles and equipment industry in 1963*

<i>State</i>	<i>All employees (thousands)</i>
Michigan.....	338.5
Ohio.....	92.6
Indiana.....	58.0
New York.....	45.2
Wisconsin.....	42.1
California.....	31.2
Missouri.....	26.5
Illinois.....	19.8
Pennsylvania.....	16.2
New Jersey.....	13.9
All Others.....	61.2
Grand total.....	745.2

Source: "Employment and Earnings Statistics for States and Areas, 1949-63," U.S. Department of Labor, Bureau of Labor Statistics.

Average hourly earnings in the parts industry in 1964 were about \$3.18, 1 percent lower than the figure for all motor vehicle and equipment workers but 26 percent above the "all manufacturing" figure. Individual earnings in the parts industry have a much greater range than earnings in the motor vehicle industry. There is also a wide dispersion in hourly rates between workers in large plants and workers in small plants. Motor vehicles parts as here defined are principally metal and are shaped by a variety of metal-forming processes which require workers in a number of metalworking occupations. Most metal parts are produced by foundry workers, forge shop workers, machining workers, and operators of stamping and pressing machines. The industry also employs many workers in unskilled and semiskilled occupations. A 1963 survey placed nearly 40 percent of employment in custodial, material handling and assembling occupa-

tions. The majority of workers in the parts industry are represented by the UAW. Other unions with important representation include the International Association of Machinists, the International Brotherhood of Electrical Workers, and the International Union, Allied Industrial Workers of America.

More than 40 percent of all employees in the parts industry work in plants located in Michigan. Other important concentrations of employment are Ohio, 17 percent; New York, 12 percent; and Indiana, 11 percent.

The automobile industry in Canada is structured similar to that in the United States. There are 17 companies producing motor vehicles in Canada, 6 of which produce passenger cars (5 of these are U.S. companies); the remaining make trucks and buses. Canada is the world's sixth largest consumer of automobiles and is a rapidly growing market. Sales in 1964 were estimated at 725,000 units. In the same year production in Canada reached a new high of 668,500 units. This production depends on the purchase of more than a half billion dollars' worth of original parts and components from the United States.

Both the automobile parts and component and assembly sectors of the Canadian industry are growing rapidly with employment averaging 38,000 in the assembly plant and 27,000 in the parts segment in 1964. Judged by either employment or output the automobile industry in Canada is appreciably less than one-tenth the size of the U.S. industry (table 4).

At the present time hourly earnings of Canadian automobile workers are approximately 20 to 25 percent lower than the comparable earnings of U.S. workers. However, U.S. labor costs per unit of output—whether it be the complete vehicle or a part—are undoubtedly considerably lower than comparative Canadian unit labor costs. This is clearly demonstrated by the fact that, although the Canadian tariff on automobiles and equipment is three times the U.S. tariff, the United States has a very large favorable trade balance in this equipment with Canada.

TABLE 4.—Canada
ALL EMPLOYEES (IN THOUSANDS)

Industry	1958	1959	1960	1961	1962	1963	1964
Motor vehicles and equipment (total).....	46.3	48.7	47.8	46.4	50.2	57.6	65.3
Motor vehicles.....	28.3	29.4	29.2	28.0	30.0	34.1	37.7
Motor vehicle parts and accessories.....	18.0	19.3	18.6	18.4	20.2	23.5	27.6

PRODUCTION-WORKER AVERAGE HOURLY EARNINGS

	C\$1.98	C\$2.10	C\$2.16	C\$2.24	C\$2.34	C\$2.45	C\$2.53
Motor vehicles and equipment.....	2.05	2.20	2.26	2.34	2.47	2.59	2.68
Motor vehicles.....	1.88	1.94	2.01	2.09	2.14	2.23	2.35
Motor vehicle parts and accessories.....							

PRODUCTION-WORKER AVERAGE WEEKLY HOURS

	38.7	40.3	40.2	41.2	42.3	43.1	42.7
Motor vehicles and equipment.....	38.3	40.1	40.8	41.3	43.0	44.0	43.2
Motor vehicles.....	39.5	40.5	40.1	41.1	41.3	41.8	42.0
Motor vehicles parts and accessories.....							

NOTE.—These data are comparable to the U.S. data in table 1. They do not include employment in establishments whose primary products are classified in nonautomotive industries.

Sources: Dominion Bureau of Statistics, "Employment and Payrolls" and "Man-Hours and Hourly Earnings."

Senator Long. Prior to the time that some arrived I suggested that we proceed on the base to make it possible for all members to ask a few questions in this morning's session of the Secretary that they would care to get the information from, and that let everybody participate in the morning session.

Mr. Chairman, I had imposed on us a 15-minute rule for each Senator to ask questions, and then after that why each Senator could ask as many questions as he wanted to so everybody could get in the

morning and perhaps find out what he wanted to know and I hope we could stick to that. If you want to why you start out.

The CHAIRMAN (presiding). Any objection?

Senator LONG. May I ask just one or two questions?

You referred to section 303. Is that the defense section, the so-called defense amendment to the Trade Act, or is that some other section?

Secretary WIRTZ. Section 303.

Senator LONG. Secretary Connor might know the section we were talking about. Is that the section that says you have to protect essential defense industries?

Secretary CONNOR. No, it is the provision of the Tariff Act, Senator Long, that does give certain rights with respect to countervailing duties when this type of action has been taken by another nation.

Senator LONG. In other words, if some of the sorts of fears that some people conjure up should actually be realized, do I take it that you have the power, and you would retain the power to move in and protect American industries and American workers from the dangers and the threats that some people fear from relatively free trade?

Secretary CONNOR. Well, Senator Long, there would be this residual authority under the Tariff Act of 1930, and the so-called escape clause under the trade agreements Act of 1962.

But the purpose of this agreement would be to try out this new approach to international trade, with a neighboring country where the conditions and the economic conditions affecting the automobile industry are roughly similar to what we have in the United States. This is in the nature of an experiment, but it makes good economic sense to try to get these economies that can come about from an integrated North American automobile production and consumption situation.

The plan would be to have this agreement go for what is an initial period until the 1968 model year. During that time, there would be consultations between the two Governments to see how it was working and then there would be the general review to see how the various accommodations that have been agreed to by the Canadian automobile manufacturers with the Canadian Government had in fact worked out.

There would also be discussion during this period of whether this agreement, as it went into the future, should not apply to replacement parts which were left out of the initial proposal.

But, by that time, with that experience at both sides of the border we should have a good idea how it was working out.

If it was working out satisfactorily and perhaps could be improved, that could be done. If it was not, then the whole arrangement can be terminated on 12 months notice and at that time we would fall back upon the usual provisions of, depending upon what action, to improve the Canadian production, the Canadian Government might decide to take.

So, in our opinion, there is plenty of legal authority remaining to protect the position of American producing firms and their employees.

Senator LONG. Do you view this as one of those classic situations where free trade between two countries can benefit both countries, and the injuries that people conjure up can be kept to a minimum?

Secretary CONNOR. Yes, sir. I don't think this can be called absolute free trade because it does have certain limitations.

But it certainly is a step in that direction, and it is a great improvement, in my opinion, over the conditions that did prevail. This recognizes the economic facts of life that prevail in the automobile industries, and affect the Governments of these two countries. I think it is a very constructive move.

Senator LONG. In other words, do I understand that from your point of view, we are at a point in our relations with Canada in the automobile industry where we have got to move in one of two directions—either we move toward freer trade, trying to achieve the benefits of freer trade, or else we have got to move in the direction of more restrictive arrangements on both sides and countermeasures each are taking, each countermeasure leading to other countermeasures against the other fellow?

Secretary CONNOR. Exactly, Senator Long; we could either engage in a cat and dog fight with all of the dangerous implications not only concerning our trade relationships with Canada but our general relationships, or we could take what I think is this orderly, constructive move toward free trade. I think this is the right move to make.

Senator LONG. I wanted to ask one question of Secretary Wirtz.

Could you tell me to what extent are your views subscribed to by the major unions such as the United Automobile Workers?

Secretary WIRTZ. I wouldn't be in position to answer authoritatively, but it is true, and I think very proper, that there have been very extensive discussions with various representatives of the workers in this field, I think it is correct to say, Senator, that there is complete support of that position on the part of those groups.

There has been, I should say quite candidly, concern on the part of the unions about the administration of the Trade Expansion Act because it has not resulted in the application of these protective devices. We have talked with them, and on the basis of those conversations and our own best judgment, have proposed, the administration has proposed, procedures here which we think would meet that problem. I think as nearly as I am in a position to answer that, the answer to your question is in the affirmative.

Senator LONG. I gain the impression that some of those fellows were very much in favor of free trade for the other fellow where in some instances he couldn't possibly meet foreign competition. It seems to me on the basis of what I heard here they are well in position to meet foreign competition and benefit from free trade. I hope they are consistent in their views in a case where everyone seems to agree, that is the industries and apparently a great number of others would seem to think it would benefit them as well as the laborers in Canada.

Secretary WIRTZ. I think it is part of our pride in the labor unions in this country that starting in 1962, particularly with the Trade Expansion Act, they have taken what is essentially a free trade position recognizing that full employment in this country is going to depend upon the full development of our international trade.

Senator LONG. I wouldn't ask those fellows to be consistent if they are going to get run out of business or lose their jobs. I mean there just comes a time when consistency is just too high a price to pay.

But it would appear from what you have said here and I take it you would not make these statements without having studied all this carefully—

Secretary WIRTZ. That is correct.

Senator LONG (continuing). It appears from what you have said here that you have studied this and you are satisfied that labor will benefit from this rather than be injured.

Secretary WIRTZ. Yes, sir.

Senator LONG. Thank you. Those are all the questions I have.

The CHAIRMAN. Senator Carlson?

Senator CARLSON. I have one question for Secretary Wirtz.

In your statement you state:

Section 304 of the bill authorizes the appropriation of funds to carry out the adjustment assistance provisions of this title.

Here is the point:

At an appropriate time, and taking account of the fact that the elimination of tariff barriers and resulting dislocations may be retroactive to last January, we will submit to the Congress a request for necessary funds.

I would like to ask first what situations have developed now for which we may have to make adjustments and what do you anticipate them to be?

Secretary WIRTZ. With respect to the first part of the question, Senator, we are still unable to identify any situations in which there would have been this effect so far. With respect to the prospects, I say to you in complete candor that it is almost impossible to identify at this point what dislocations there may be. I do not mean to suggest that there won't be any. I assume that there will be some. It is with equal candor that I say to you although we expect comparatively few, we want to be fully ready to meet them when they do come. But to identify at this point particular dislocation situations is virtually impossible and we have been watching it closely.

I wish I could give you an estimate; I can't. But my inability is as a result of watching the situation and so far not seeing it develop.

Senator CARLSON. Can you state, and do you state that so far as you know retroactively there have been none?

Secretary WIRTZ. But I want to make it known that there has been no complaint filed yet because the law is not in effect, but the answer is "No." But I should like to make it on the basis of a thorough study.

Senator CARLSON. That is all, Mr. Chairman.

Senator SMATHERS. I address my first question to Secretary Connor.

You said the U.S. parts industry, including many small independent producers, should also benefit from this program?

You have heard it charged, and it will again, I am sure, be charged, that contrary to that statement, that in point of fact the small parts business in the United States will be hurt.

Would you elaborate on your statement that the parts industry will be benefited?

Secretary CONNOR. Senator Smathers, this is a general statement applying to the general small independent producers. We think that they were being hurt by the existing situation with respect to the duty remission scheme that Canada had in effect.

We think that generally their part of the industry will improve if this agreement is approved by this legislation, because the volume of fully assembled automobiles moving from the United States into Canada will be increased, and many of these small independent producers sell parts to the assembly companies in the United States.

In addition, they will be able to sell directly to the Canadian automobile producers, both those that are American subsidiaries of American companies, and the other producers.

Senator SMATHERS. May I interrupt you right there? As I understand, their contention is, because they pay a much less wage rate, there is a much lower wage rate in Canada than there is in the United States, and because in many instances these parts workers are not organized, they do not necessarily belong to a union, that there will be, and there is fear that there will be, after the adoption of this agreement, a wholesale movement of a lot of the small parts business from the United States into Canada in order to avail themselves of the lower wage rate and avail themselves of better working conditions there; that is, when I say avail themselves, I am talking about the owners of the business.

So I want you to address yourself to that point for just a second.

Secretary CONNOR. Well, Senator Smathers, we think that there will continue to be a growing volume of business for the parts manufacturers that are located in the United States, sending their products into Canada for incorporation in the new vehicles there and they can do this now, if this agreement is approved by the legislation, on a duty-free basis. We think, therefore, that the effect of this will make them more competitive.

Now, it is true that the wage rates in Canada, with this kind of business, are lower than in the United States, but these parts manufacturers in the United States, because of their historic position of supplying the U.S. automobile manufacturers, have efficient operations and they have pretty good sized production runs in order to meet the orders they get from the U.S. manufacturers.

We think, therefore, that generally speaking they will be in a position to compete effectively to get this business in Canada that results from the growing Canadian automobile market.

Some of them, however, undoubtedly will be hurt and that is why there is need in the legislation for this adjustment procedure that Secretary Wirtz has described.

Senator SMATHERS. In your judgment, would this agreement serve to improve our balance-of-payments position?

Secretary CONNOR. Yes, sir. Both in the short run and in the long run.

In the short run, we were faced by a growing situation whereby our balance of trade with Canada was being jeopardized by the duty remissions scheme they had in effect. So something had to be done about that.

We think that this arrangement that has been worked out is a wise and a farsighted one. There will be this period of adjustment during which Canada will get a little more than its share on a strictly competitive basis of the growth in Canada.

But we can understand why the objective of the Canadian Government is to get a larger share in Canada of the production that goes

into the consumption or the use of automobiles in Canada. This is a quite understandable position.

We think that the incremental share that the United States will get during this adjustment period will result in a continued favorable balance of trade, and on an increasing basis, although not increasing at the rate that it would have if economic conditions alone prevailed.

At the end of this adjustment period, we foresee that there will be as a result of the integrated North American automobile market beneficial results that will result in lower prices to the Canadian consumers and thus a continued expansion in the Canadian market which will benefit us because the U.S. manufacturers will be able to sell in Canada, on a greatly expanded basis, automobiles that are completely made and assembled in the United States and then moved into Canada on the duty-free basis.

So we are quite optimistic about the trade benefits to the United States.

Senator SMATHERS: As our own companies here in the United States are permitted to sell cars in Canada, which, as I understand they will be, then from what you state and what you understand about the tax situation and the other limitations, you still nevertheless maintain that this agreement will improve our balance-of-payments position?

Secretary CONNOR: Yes, sir. I think it will improve, in the first instance, our balance of trade.

I think that our exports to Canada will continue to increase as a result of this, and there will be a net benefit compared with the import situation, although the imports from Canada also will increase.

On the balance-of-payments side, of course we have factors beyond the import-export situation. Part of the situation that will undoubtedly result from this agreement is an increased capital investment program in automobile facilities in Canada. This may or may not be financed completely out of the earnings of the Canadian automobile companies and of particular interest to us would be the investments by the American-owned subsidiaries in Canada. But based upon the estimates that we can see coming up, a lot of that expansion can be financed out of their earnings in Canada, plus Canadian borrowings, so that we do not see any detrimental effect on the balance of payments as a result of this.

As a matter of fact, our whole balance-of-payments situation with Canada last year got on to the negative side for the first time, and this automobile situation was a partial cause, although the capital needs of Canada for the growth of industry generally was the main reason. There was a very substantial flow of capital from the United States to Canada last year which resulted in this negative position on the balance of payments.

So we think, in summary, that there will be an improvement as a result of this.

Senator SMATHERS: I just want to get that clear because that will be a factor in the debate as to whether or not this agreement will encourage the outflow of capital by our automobile people into Canada, and thereby worsen our balance-of-payments position rather than improve our balance-of-payments position which we are trying to do worldwide.

You are satisfied that it will be improved?

Secretary CONNOR. Yes, sir; we think it will, Senator Smathers, on the basis of the information we have.

You will have the representatives of the automobile companies before you, and this might be an appropriate question as to how they would finance their capital expansion that will be required as a result of this. But our impression is they will be able to do it in substantial part out of the earnings from their Canadian operations.

Senator SMATHERS. All right; let me address one question to Secretary Wirtz.

There was a statement filed by the AFL-CIO, Mr. Secretary, that they recommend an amendment which, in effect, would require that any car imported from Canada cannot be sold in the United States at a price below the Canadian price.

Would you favor such an amendment?

Secretary WIRTZ. I should like to look further into the background of the suggestion, because it is unfamiliar to me, but my offhand answer is I would not support that change.

Senator SMATHERS. You would not support it?

Secretary WIRTZ. That is correct. It would seem to me offhand a mistake to add such a provision. I should like only the opportunity to consult the detail of the proposal and to add to the record whatever supplementary answer there might be, Senator Smathers. But that would not be consistent with my present understanding of the proper administration of the program.

Senator SMATHERS. All right, sir.

One other question: Would you care to make an estimate, as to how many of the people who are employed, small business automotive parts industry in the United States are not organized, do not belong either to the UAW or any other union, but are independent workers and would be adversely affected by this agreement?

Secretary WIRTZ. I will add to the record whatever more specific answer a survey of the figures would provide, Senator Smathers.

I cannot answer that question offhand.

As far as the nature of the industry is concerned, this is one of our most highly organized industries, and there are four different unions which represent employees in this industry, including the parts industry to which your question specifically referred.

On the other hand, there is a geographical distribution of that industry, which would require looking at. On that basis, I would make a guess—and it is only a guess—that it would be some place between 25 and 35 percent. But that is only for the advancing of the discussion here, and I will have to see if the records illuminate that answer.

Senator SMATHERS. If you could supply us with that information, it would be helpful.

Secretary WIRTZ. Yes.

(The following was later received for the record:)

A survey of the automotive parts industry made by the Bureau of Labor Statistics in 1963 indicated that only 20 to 25 percent of the workers in this industry were not organized in unions. We do not expect that the ratio has changed significantly since the last comprehensive survey.

Senator SMATHERS. Thank you, Mr. Chairman. That is all I have.
The CHAIRMAN. Senator Williams?

Senator WILLIAMS. I will pass.

The CHAIRMAN. Senator Douglas?

Senator DOUGLAS. I would like to ask a question of Mr. Wirtz and then one or two questions of Secretary Connor.

Mr. Wirtz, you mentioned that the unemployment readjustment allowance was not to exceed 65 percent of the worker's average weekly wage or 65 percent of the national average weekly wage. That would seem to be liberal in comparison with the State unemployment compensation laws which I think average around 35 percent. But in the automobile industry there is the supplemental unemployment insurance benefits, and I wonder if you add those to the basic State unemployment insurance allowances whether the 65 percent would be above that or below it in some cases.

Secretary WIRTZ. With the addition of the full supplemental unemployment benefit payment, Senator Douglas, the payments in these cases would be substantially above the level of State unemployment insurance payments.

Senator DOUGLAS. Above the level of the State?

Secretary WIRTZ. Yes.

Senator DOUGLAS. But would it be above the level of the State plus the supplemental?

Secretary WIRTZ. The matter has been quite thoroughly considered in connection with the discussion in the House, and there is included in the committee report in the House a suggestion directed toward that particular point. It takes the form of a suggestion that about half of the payment identified here should be considered in the nature of State unemployment insurance. This is obviously a matter on which the controlling factor is the private agreement and the interpretation of that private agreement, the SUB agreement, by an arbitrator. But if it is adopted as a rule of practice that these payments would be considered about half in the nature of unemployment insurance, then the answer would be that this would come out in situations of this kind usually slightly above in total amount the payments which would be received—the combination of State unemployment insurance and SUB—in other situations.

Senator DOUGLAS. Would you be willing to have this matter considered rather carefully and if the present language is inadequate to have it changed?

Secretary WIRTZ. I surely would, and the matter is one that warrants careful attention in view of the collective bargaining agreements in the industry.

Senator DOUGLAS. Thank you very much.

I would like to ask Secretary Connor whether he is not basing a large part of his expected favorable results from this treaty on the fact that Canadian consumption will increase substantially.

Secretary CONNOR. Yes, sir; we think, Senator Douglas, that there will be an increase in the Canadian purchase of automobiles.

Senator DOUGLAS. This increase in consumption can follow from two forces—first, the normal growth, the desire of people for more automobiles, and so forth, but also I notice that you say that it will be a direct result of the elimination of import duties between the United States and Canada.

Secretary CONNOR. Yes, sir. We think that, as it is now projected, that there will be an increased growth in the Canadian automobile market of about 8 percent a year compared with the expected growth in the United States of, say, 3 percent a year.

But in making that estimate, there is the expectation that over a period of time, particularly after this transitional period, the automobile prices in Canada will more nearly approximate the prices of automobiles in the United States, in other words, there will be a downward trend.

Senator DOUGLAS. Is it your expectation that the foregoing of the tariff duties will result in a commensurate reduction of prices of American cars sold in Canada?

Secretary CONNOR. Not immediately, Senator Douglas, because there are these adjustments that will be made in Canada. We understand the Canadian Government itself has looked into this possibility, and in the debates in Parliament and in other ways, the opinion is expressed that there probably can be expected no immediate price decreases, but that in the long run there will be.

Senator DOUGLAS. In several parts of the argument of Mr. Mann yesterday, and in the early part of your testimony today you expected Canadian consumption to go up because the tariff duties would no longer apply.

Well, Canadian consumption, aside from the shifting of the demand curve to the right will increase the prices alone, but prices can only be lowered if the duties are not paid because of a commensurate reduction in price.

Now, as a matter of fact, is Canada collecting duties now?

Secretary CONNOR. Not during this year, as I understand it.

Senator DOUGLAS. In other words, Canada has treated this matter as though an agreement were in effect and is not collecting duties?

Secretary CONNOR. They removed their duties on January 18, 1965.

Senator DOUGLAS. Therefore, the Canadian subsidiaries of American companies no longer pay the 17½-percent duty on imported American cars.

Secretary CONNOR. That is my understanding, Senator.

Senator DOUGLAS. That is my understanding, too. Has this resulted in a commensurate reduction in price to the Canadian consumers?

Secretary CONNOR. So far as I know it has not as yet. The price reduction problem is also dependent upon getting greater efficiency in production.

Senator DOUGLAS. Well, but here is an expense which was formerly incurred, 17½ percent, and that is a large tariff, on a \$3,000 car, which would amount to over \$500, and yet, with a \$500 less expense to the Canadian subsidiaries, my information is just what yours is that the price of the car has not been reduced.

Who then has pocketed this reduction in duties?

Secretary CONNOR. Well, Senator Douglas, there are several factors that have to be taken into consideration.

First, there is an element of uncertainty as yet until the U.S. Congress acts on this legislation as to whether or not the Canadian situation, as it is at this moment, will prevail.

It could be that if this agreement and enabling legislation is turned down by our Congress, then the Canadian Parliament might have to take protective steps on a retroactive basis.

Senator DOUGLAS. It is somewhat unusual for an American Congress to take action to protect the consumers in another country. In the desire to have friendly relations with Canada, and you have eloquently spoken of that point, I think that this should be considered.

But suppose this treaty does go into effect. Who is going to pocket that 17½-percent reduction? Thus far it is the automobile companies. This has been going on for 9 months.

Secretary CONNOR. Senator Douglas, there are two other factors I would like to mention and I think here again the testimony from the manufacturers themselves would be relevant. Most of the trade in automobiles—most of the automobile trade between United States and Canada up to the present time has been in parts and accessories rather than in a fully assembled automobile. So that the tariff remission of the 17½ to 25 percent has affected certain parts, not the entire vehicle. This is one factor.

Senator DOUGLAS. Well, I was talking about the 17½-percent reduction for parts. Is it not 17½ percent for parts and 25 percent for automobiles or is it the reverse?

Secretary CONNOR. The other way around, Senator.

Senator DOUGLAS. It is 17½ for autos, 25 percent for parts?

Secretary CONNOR. That is correct.

Senator DOUGLAS. It is even more.

Secretary CONNOR. That is correct.

The second factor is that in order to achieve the results that are contemplated by this agreement, expanded facilities are going to be needed by these companies in Canada, so there will be major capital investments required.

Senator DOUGLAS. I can only say if I were a Member of the Canadian Parliament I would certainly go into this matter most carefully and although perhaps it would seem somewhat strange for an American Senator to do this but in the interests of friendly relations I would say that Canadian consumers ought to be protected in this matter.

Secretary CONNOR. Senator Douglas, I might comfort you by saying this has been a matter of debate in Canada, in the Parliament and the Prime Minister has made a statement which, perhaps, should be put in the record at this point.

Senator DOUGLAS. I would be very glad to have it.

What did he say?

Secretary CONNOR. I will just quote part of it:

If our sole objective was to wipe out the difference in car prices between the United States and Canada, this could be done or almost done very simply by removing the tariff completely. Then there would be no price difference except that due to transportation and distribution and certain other minor costs. But it would not be only the price of the car which would be lowered as the result. Canadian production and employment would run the risk of being lowered, too, not only in the automobile industry directly but in its supporting industries as well. The Government's automobile program is an attempt to get higher employment and lower costs and I am confident that this can be achieved in time. Both the industry and consumers will benefit from expanded Canadian production and employment on a scale that will raise efficiency and cut costs and, therefore, gradually make it possible to bring United States and Canadian prices together. Cutting price at once would merely take away people's jobs. If we

are not going to do that, and we do not want to perpetuate higher costs and prices some time must be allowed for carrying through the program that has been started.

Senator DOUGLAS. I would only say if I were Mr. Diefenbaker I would go to town on that statement.

Secretary CONNOR. There is a statement by Minister Drury on this question also, Senator Douglas, and I think it might be made a part of the record at this point if the chairman is willing to have that done.

(The following was later received for the record:)

[Common Debates, May 10, 1965]

STATEMENT OF THE MINISTER OF INDUSTRY, MR. DRURY

As to the consumer, it is clear that before the cost to Canadian consumers can go down it will be necessary to reduce the cost of manufacture. To bring this about involves a change in the current techniques of manufacture. It calls for investment and for time. Very substantial investments are needed, and these are now being made. However, results cannot be achieved in 1 day. Under the system of price competition which we have in this country, a system which most people are fairly happy about, we are confident that the operation of this system, as the manufacturers are able to reduce their costs, will lead to reduction in price being passed on to the consumer.

Senator DOUGLAS. Mr. Connor, when did you first learn of the letters of undertaking or agreement between the four automobile companies to Mr. Drury?

Secretary CONNOR. Senator Douglas, I assume you mean the Department of Commerce rather than me personally because I was rather happily in another situation. [Laughter.]

Senator DOUGLAS. Yes. You have an assistant, I believe.

Secretary CONNOR. Mr. McNeill was actually very active.

Senator DOUGLAS. It is very convenient for new appointees to come in and say they know nothing about the previous negotiations.

Secretary CONNOR. Mr. McNeill was thoroughly familiar with it and I would like for him to give a summary of the entire situation.

Senator DOUGLAS. When did the Department of Commerce first know of the letters of January 13 and 14 addressed by the four companies to Minister Drury of Canada?

Mr. McNEILL. If I may answer that in two parts: first, we knew during the course of the negotiations that went on for many, many months, that the Minister of Industry of Canada was holding conversations with the automobile manufacturing companies in Canada in respect of their intentions as to production under the differing conditions of the prospective agreement. We were aware, Mr. Senator, all along.

Senator DOUGLAS. Did you know the terms of the agreement?

Mr. McNEILL. I am sorry, sir.

Senator DOUGLAS. Did you know the terms, the t-e-r-m-s, terms?

Mr. McNEILL. Of the letters?

Senator DOUGLAS. Yes, sir.

Mr. McNEILL. We knew the general content of the discussions that the Ministry was having with the automotive industry, yes, sir.

Senator DOUGLAS. When did you know those?

Mr. McNEILL. In time I can't place it. It took the Canadian Government some time to formulate exactly what was in the letters but I would say in the winter certainly of 1964.

Senator DOUGLAS. The winter of 1964?

Mr. McNEILL. December, November.

Senator DOUGLAS. Yes.

Did you ever see the text of these letters before they were sent?

Mr. McNEILL. No, sir.

Senator DOUGLAS. Did you ever see them after they were sent?

Mr. McNEILL. We saw the formal text of the letters, sir, just before they were made public in April of 1965.

Senator DOUGLAS. You only saw them April 27, 28, 29, when they were introduced in the record in the House hearings on pages 158, 148, 589, 194?

Mr. McNEILL. Yes, sir; just before that.

Senator DOUGLAS. Is it true that these letters were forced into publication in the Canadian House of Commons by the opposition 2 days before?

Mr. McNEILL. I have no knowledge of that, sir.

Senator DOUGLAS. That is my information, that the Canadian House of Commons forced these to be published, and once published they become a matter of public property and, therefore, were introduced into the American record but you hadn't seen them before. You didn't know the contents before?

Mr. McNEILL. Well, we knew, sir, the general substance of the contents of the letters.

Senator DOUGLAS. But you had never seen the letters themselves?

Mr. McNEILL. But we had never seen the letters until they were made public just before April 27 and 28.

Senator DOUGLAS. Don't you think you should have seen them?

Mr. McNEILL. Knowing the contents, we did not feel it absolutely necessary to see the verbatim text.

Senator DOUGLAS. These letters are very similar in three cases; they are virtually identical. The General Motors letter is not quite identical but I think substantively identical and it concludes, I will just read from the Chrysler letter:

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.

On April 1 there would be another letter, and another report on July 1.

Do you know anything about this further report of four companies of the Canadian Minister?

Mr. McNEILL. No, sir; we do not.

Senator DOUGLAS. Don't you think it would be a good thing if you did know?

Secretary CONNOR. As it is evident, Senator Douglas, these are Canadian corporations organized and doing business in Canada.

Senator DOUGLAS. But they are subsidiaries of American corporations.

Secretary CONNOR. Yes, sir.

Senator DOUGLAS. You can't really divorce them. You can divorce them legally, but factually they are part of the four American companies; isn't that true?

Secretary CONNOR. Yes, sir; they are owned by the American companies, and we can certainly have reporting requirements set up for the American parent companies but I don't think we could deal directly with the Canadian corporations in their relationships with the Canadian Government.

Senator DOUGLAS. Well, is it not true that in the case of three of these companies, Ford, Chrysler, and American Motors, the pledge is virtually identical, and I think verbally identical? Let me read from the pledge of Ford on page 38 of the committee print, although my time has expired and we will renew this matter later.

Secretary CONNOR. I just want to point out in reading the letters in the last few days, there is a substantial question raised in the Ford letter about some of the definitions of growth as well as similar questions in the General Motors letter so there are variations apparently based upon the individual company problems.

Senator DOUGLAS. Mr. Chairman, I ask that when the colloquy is resumed at this point that it be printed as a connected discussion.

(The subsequent colloquy between Senator Douglas and the Government witnesses follows:)

Senator DOUGLAS. If I may resume my questioning about the letters addressed by the four Canadian subsidiaries to the Canadian Minister of Industry on January 13 and 14 preceding the agreement signed on the 16th in the Canadian order of council on the same day. Were you struck with the fact when you became aware of these letters, the texts of these letters, that in the case of Ford, Chrysler, and American Motors, that the language at the conclusion of each letter was virtually identical, or was identical?

Secretary CONNOR. I think that Mr. McNeill should speak for the Department of Commerce.

Senator DOUGLAS. Did that impress you? First, is the language identical?

Mr. McNEILL. I could not answer that, sir, without—

Senator DOUGLAS. You haven't read the letters?

Mr. McNEILL. Yes, sir, I have; but the format—

Senator DOUGLAS. May I read them to you? Let us take the letters of American Motors:

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

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.

Now, let me take the letter of Chrysler.

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

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.

And in Ford:

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:

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.

You never noticed the identity of this language?

Mr. McNEILL. I noticed the identity of the language you have just read, sir.

Senator DOUGLAS. You have noticed it?

Mr. McNEILL. I have, sir.

Senator DOUGLAS. I thought your statement was that you hadn't noticed it?

Mr. McNEILL. I think you will find in various instances there are variances.

Senator DOUGLAS. I meant the conclusion of the letter. Did this impress you at all?

Mr. McNEILL. Not really, sir.

Senator DOUGLAS. It didn't? Why not?

Mr. McNEILL. Well, I imagine that during the separate conversations that the companies had with the Minister of Industry, that the discussion was perhaps a common one, and perhaps the Minister of Industry drafted a proposed letter that he discussed with each of them that had identical language in it, and that these letters were taken by the Canadian companies and modified to suit their particular circumstances and returned to the Ministry with a lot of the common language remaining.

Senator DOUGLAS. Is it true that the total amount of increase in value of Canadian origin by 1968 as a result of these letters would have been approximately \$240 million.

Mr. McNEILL. \$240 million United States.

Senator DOUGLAS. Of which General Motors was asked to contribute \$121 million?

Mr. McNEILL. Yes, sir.

Senator DOUGLAS. And which Ford was asked to contribute \$74 million.

That makes 185. Chrysler was asked to contribute \$33 million which brings it to 128, I think, and American Motors \$11 million—

Secretary CONNOR. Senator Douglas, you said 128, I think you meant \$228 million and then with the addition of \$12 million of American Motors that brings it to 240.

Senator DOUGLAS. That is correct.

Now, then, where is this increase in business going to come from?

Mr. McNEILL. How were these figures arrived at?

Senator DOUGLAS. No, no. How will they be able to realize it? This is in addition to growth, too, isn't it?

Mr. McNEILL. Yes, sir.

Senator DOUGLAS. It is in addition to growth. So it can only come about through a lower price and consequently an increase in the quantity demand. It doesn't come about through a shifting of the demand curve to the right.

Mr. McNEILL. I think the achievement of the \$240 million, Senator, can be realized many different ways and will perhaps vary by company.

One company could choose to increase its value added in Canada by increased assembly operations, assembly representing about 25, 26 per cent of the cost of a completed automobile.

They could add additional shifts perhaps to existing assembly facilities and make up part or all of their value added intention here.

Senator DOUGLAS. Wouldn't the cheap way be through a decrease in price and a consequent increase in the quantity demanded?

Mr. McNEILL. If economics means anything, sir, I think it means that.

Senator DOUGLAS. And the reduction in tariffs would make this possible if they actually resulted in a decrease in price to the consumer, but if they do not result in a decrease in price to the consumer, or if the reduction in tariffs is pocketed by the companies as it has been to date, how can you get an increase in demand as a result of this?

Mr. McNEILL. Well, sir, I think it will take some time, and this is again a question the companies would be better able to answer than the Government. It will take time for the assembly operations or the increased production facility to be put in place, and it is not done overnight.

Senator DOUGLAS. There is an immediate decrease in the cost of delivering an automobile, an American automobile to Canada because the 17½-percent duty has been no longer imposed. This in itself, regardless of Canadian production, has made it possible to reduce price. But it is the evidence of the Secretary of Commerce, and I want to commend him for a very honest statement, that there has been no such reduction in price. To date the automobile companies have pocketed this reduction.

Now, you may say it is none of our business to protect the Canadian consumer, although in the interest of relationships between the two countries, I think it is desirable that we at least think of it. But if we take a narrowly selfish point of view, if we don't get an increase in Canadian demand as a result of a lowered price, this increase in Canadian production will have to be shipped across the border to the United States.

That is the gravamen what I am trying to say.

Mr. McNEILL. Yes, sir.

Senator, if I may just add, there has been a lot of reference to the figure, I believe, of \$50 million that will be the annual savings in duty spread over 12 months, the duty obligation. If you divide that 50 by 12 you will come out obviously to a 12th of that figure if you take that figure and spread it over the 700,000 or 800,000 cars assembled in Canada each year, if not sure what the maximum reduction possible would be per car and I don't know that that will be put into effect.

Senator DOUGLAS. There is a 17½-percent duty on a \$3,000 car, which is approximately \$515. Now, that is very appreciable. If that is not passed on, that goes to the companies. I want to commend the Secretary of Commerce, who I think is a very honest man, for testifying to the facts in this case. If the companies continue in this policy of not passing on the reduction in tariffs to the Canadian consumers, then you can get an expansion only at the expense of shipping back across the border, because this is outside the growth factor. This is outside the growth factor and that is made explicit, I think in the paragraph dealing with this subject as you have very properly confirmed.

Secretary CONNOR. I think, Senator Douglas, this is a subject that having been raised by these letter arrangements that each of the Canadian subsidiaries has made with the Canadian Government might properly be explored with the manufacturers when they are before

you, because it does involve considerations with which we are unfamiliar.

Senator DOUGLAS. I intended to do that but I thought as a preliminary I should start with you to establish a basis of fact; namely, that the tariffs have been taken off in Canada since the Canadian order in council which was identical with the signing of the agreement, January 16, and that there have been so far as you know no decreases in price to the Canadian consumer which is precisely what my information is.

If this policy is to continue, the effect of this is to make much greater profits for the American companies. I have no objection to that whatsoever but there are no real economies to the Canadian consumer, and the expansion of Canadian value outside of the growth factor will have to be at the expense of the United States.

I think you should have known the text of these letters before you did. I think you might have—I think perhaps you bought a pig in a poke.

Mr. McNEILL. Sir, we knew the contents.

Senator DOUGLAS. Or to vary the analogy like in Oliver Goldsmith's novel, I think when you went to market you bought a set of green spectacles which didn't help very much in sight.

Mr. McNEILL. Senator, if I may revert to what I said earlier, we certainly knew the contents and substance of the letters although we could not see the specific text until this past April.

Senator DOUGLAS. Why didn't you say that in the first place?

Mr. McNEILL. I did say that, sir.

Senator DOUGLAS. Well, words are strange things.

Mr. McNEILL. Sir, may I just read a statement regarding Canadian Government policy on the question of price; it is a statement of the Minister of Industry, Mr. Drury, and he says that:

The purpose of removing the duties was to alter the patterns of manufacture and trade within Canada to increase production and employment. This will require costly changes in production facilities by the companies. The savings in duties will go into these changes in production facilities to enable the companies to produce more efficiently cutting costs and then cutting prices.

Senator DOUGLAS. I am not here to make electoral capital for Mr. Diefenbaker but I would like to point out that what has happened has been that the Canadian Government has permitted the American companies or Canadian subsidiaries of American companies to pocket this decrease in duties in order that their own domestic production should not be put on trial because it was operating at higher prices and higher costs than the Americans were.

Mr. Pearson will have to answer to the Canadian electorate for that, not to us.

I don't suppose you had really any—if the Canadian Government wouldn't protect its own people, I don't know that you can force them to do so.

Mr. McNEILL. They are difficult negotiators, sir.

Senator DOUGLAS. I understand.

I am glad the Senator from Kentucky is here. He said, let's have done with discussion, let's vote it up or down. The Canadians have put this into effect, and in a sense we are bound therefor. Now, this is the experience which we in the legislative branch frequently find

ourselves faced with, that the State Department or some agency of Government will negotiate an agreement which is accepted by other countries, and they say, "Well, the American Senate or the American Congress can feel free," but when we come to deal with it we find we are faced with an accomplished fact and we are told that if we don't ratify it it will be a breach of faith with the foreign government, and in effect, therefore, the treaty ratifying powers of the Senate are being completely eroded by this practice.

Mr. Mann knows I have voiced these objections to the coffee agreement in the past, which I know we were railroaded into. We may find ourselves faced with a similar situation in connection with the sugar bill. It is very unpleasant to be compelled to legislate under these conditions. This is not Secretary Connor's fault. It is standard operating practice for the State Department. This has gone on for years. This practice put strength behind the Bricker amendment which nearly carried.

I waited to vote on that amendment until the vote was precisely 2 to 1 and then I cast what the deciding vote was against the Bricker amendment and I would do it again today. I am not jurisdiction-minded in this matter, but I do want to say if the Congress is to be a factor in these matters, the executive agencies of the Government must take us into confidence at an earlier stage, and not confront us with accomplished facts which give to us the idea we have independence but in reality we do not have it.

That is all, Mr. Chairman.

The CHAIRMAN. Senator Morton?

Senator MORTON. I would like to address this to Secretary Wirtz, if I may. I have here in my hand a news release from the UAW which indicates that in his testimony which will probably be at a later date, Mr. Weinberg, a very eminent economist for that group, wants to suggest that we put in some requirement on the consumer price of automobiles in Canada, and that we try to force down this price, as I read this news release, which, Mr. Chairman, I ask may be made a part of the record.

(The news release referred to follows:)

[For release from UAW Washington office, Sept. 14, 1965]

(The following is being released simultaneously in Washington, D.C. and Detroit, Mich.)

UAW URGES AMENDMENT TO UNITED STATES-CANADIAN AUTO TRADE AGREEMENT

The UAW today urged that an amendment designed to bring about car price reductions in Canada be added to the bill to implement the automotive trade agreement between Canada and the United States.

Testifying before the Senate Finance Committee, Nat Weinburg, UAW director of special projects, quoted numerous Government and industry sources to the effect that the purpose of the agreement is to expand sales, production, and employment in both countries through price reductions made possible by cost savings resulting from the agreement.

That purpose, he said, is being "frustrated" by refusal of the auto corporations to reduce prices in Canada even though the agreement has already brought them \$50 million a year in savings on Canadian tariffs.

He cited evidence indicating that further cost savings flowing from efficiencies achieved under the trade agreement will be withheld from consumers and pocketed by the auto corporations.

Weinberg also called upon the committee to preserve intact the criteria adopted by the House governing workers' eligibility for benefits if their jobs are affected by the agreement. The House-adopted provisions differ from those of the Trade Expansion Act (TEA) under which the Tariff Commission has denied all applications for so-called adjustment assistance on which it has acted.

"If assistance had been offered only under the criteria and procedures of the TEA," Weinberg said, "we would have had no alternative but to oppose the agreement."

The price amendment proposed by the UAW would permit duty-free entry of Canadian cars into the United States for sale here at lower than Canadian prices only if the higher Canadian prices were fully justified by differences in production costs as between the United States and Canada.

Such a provision would say to the industry, "you may not have the benefits of the agreement unless you are willing to accept the obligations that go with them," Weinberg said. He added, "nothing could be more reasonable or fairer."

He pointed out that the UAW's proposal is the "exact reverse" of an anti-dumping amendment to which the UAW is opposed. Such an amendment would prevent sales of Canadian-made cars in the United States at prices less than those charged in Canada. The UAW's proposal would "explicitly permit" such sales if the price differential were justified by a cost differential.

Supporting the principle of the trade agreement, Weinberg pointed out that it is "similar in many respects" to a proposal made by the UAW in 1960 to a Canadian Royal Commission.

The UAW's concern with the pending legislation, he said, is to assure workers of protection against adverse effects and to obtain for consumers and workers the lower prices and resulting additional job opportunities which are the goals of the agreement.

Senator MORTON. What is the view of the administration on the desirability of this suggested amendment?

Secretary WIRTZ. I think, Senator, that is probably the same—that question has the same roots that the question Senator Smathers asked?

Senator MORTON. Yes.

Secretary WIRTZ. I am frankly not familiar with it. I had not seen the news release. I do have before me a copy of Mr. Weinberg's proposed testimony which I have just been looking at for the first time since the question was asked. I don't believe I am in a position to add much to my previous answer. I would rather wait until after that suggestion has been made and developed. I am frank to say I still persist, as of the moment, in my view that that is not a necessary part or even an appropriate part of this legislation. But I am impressed with the kind of question which you and Senator Smathers and Senator Douglas have raised and they are all part of the same picture.

I am impressed with the evidence suggested in Secretary Connor's last comments, the evidence of the attention which has been given this problem in the Canadian Parliament and in the Canadian debates.

My present conclusion would be that there is not evidence of a prospect of dumping or of price disadvantage or of anything of that kind which warrants an addition to the bill as it presently stands. I feel quite strongly as of the moment to that effect, yes, to that effect, but we want to reserve the opportunity to look at that more fully. It is a long answer. Summarizing it, my present view is that it is not a necessary addition to the present bill.

Senator WILLIAMS. Would you yield at that point?

Senator MORTON. I yield, yes.

Senator WILLIAMS. Are you suggesting we hold up action on that point until you made your intention?

Secretary WIRTZ. To the contrary, Senator, my present view is quite clear about it. It is only out of respect to the questions and out of subsequent testimony—and I make my answer categorically that I don't think it should be held up for the answer.

Furthermore, I don't think it should be held for the consideration of the amendment unless it assumes larger significance that I have presently attached to it.

Senator MORTON. Mr. Chairman, I hate to drag Under Secretary Mann into the act but isn't this agreement very desirable on the part of the Canadians; I mean they have taken action. Don't they want us to take action?

Mr. MANN. The answer is "Yes," Senator, to both questions. It is desirable, and I understand the Canadian Government, having taken its action, fully expects that we will take action.

Senator MORTON. Isn't our biggest customer Canada?

Mr. MANN. Our biggest trading partner, the largest trading partner we have in the world is Canada.

Senator MORTON. Yes.

I should think, as a matter of courtesy, Mr. Chairman, that we ought to come to some resolution of this problem without going into merits or the demerits of it, one way or the other. I used to be in business selling merchandise and you took care of your biggest customer. I expect if Mrs. Cafritz walks into Garfinckels on the fourth floor today she will get a lot better treatment than Sophie Glutz will.

I think that we ought to resolve this one way or the other, vote it on or vote it down. I am not talking about the merits or demerits of the question. But I think we are getting to the closing, I hope at least to the closing days and weeks of this session and that we will—here we have had two members of the Cabinet, and the distinguished Under Secretary of State sitting here for 2 days, I guess I am being redundant now so I had better shut up, Mr. Chairman.

The CHAIRMAN. Senator Talmadge?

Senator TALMADGE. Mr. Chairman, I have some questions relating largely to the contents of the agreement. I presume Secretary Mann would perhaps be the most qualified to answer the questions; is that correct?

Secretary CONNOR. Secretary Wirtz and I defer to him.
[Laughter.]

Senator TALMADGE. Mr. Secretary, what rubber products are included within the terms of the agreement and what products are excluded?

Mr. MANN. All rubber products are included, Senator, I understand except tires and tubes.

Senator TALMADGE. Why are tires and tubes excluded?

Mr. MANN. It was considered to be a separate industry, Senator.

Senator TALMADGE. Does the exclusion go to all tires and tubes or just replacement tires and tubes?

Mr. MANN. My understanding is that tires and tubes come in free only if they are on an automobile, a new automobile which is exempted from duties under the agreement. Otherwise, they would pay duties.

Senator TALMADGE. Would an automobile imported from Canada have American or Canadian tires and tubes?

Mr. MANN. It could have either one, Senator.

Senator TALMADGE. If it has Canadian tires and tubes does the Canadian guarantee have an extra territorial effect?

Mr. MANN. I don't think I have the answer to that, Senator.

Senator TALMADGE. Who initiated the tire and tube exclusion?

Mr. MANN. It was—my understanding is that both sides agreed that the tire and tube industry was a separate industry, and that it would complicate rather than facilitate the negotiations on the automotive products industry.

Senator TALMADGE. Why didn't they also insist on exemption for other rubber products?

Mr. MANN. Other rubber products, besides tires and tubes, were thought to be an integral part of the automobile, as I understand it.

Senator TALMADGE. So our negotiators simply decided to leave all rubber components and parts out of the agreement?

Mr. MANN. As I stated yesterday, Senator, I wasn't present but I am being told that we did not.

Senator TALMADGE. Why?

Mr. MANN. May I defer here to Mr. McNeill?

Mr. McNEILL. I am sorry, Senator, could you ask the question again?

Senator TALMADGE. Did our negotiators suggest leaving all rubber components and parts out of the agreement? Secretary Mann answered in the negative. I asked why?

Mr. McNEILL. Well, most rubber products other than tires and tubes are in our own SITC, our own classifications and the Canadian classifications included as integral parts of an automobile, such as washers or rubber parts for shock absorbers and we felt those were legitimately classified within the automobile industry and, therefore, should be included in the agreement.

Senator TALMADGE. If the Canadians were allowed to protect their tire and tube industry by providing a specific exemption under the agreement, why shouldn't this country have shown an interest in protecting its extruded and molded rubber industry.

Mr. McNEILL. I am sorry, Senator, I can't answer that because I don't know what the extruded molding industry is.

Senator TALMADGE. I have with me two telegrams from smalltown industries in my State declaring that this agreement will create extreme hardships for the U.S. independent rubber producers who manufacture original equipment and replacement automotive parts.

Another identical telegram states:

We urge you to exempt rubber molded and extruded products from H.R. 9042 to protect jobs at our Dawson, Ga., plant.

I wonder why we would permit Canadians to negotiate an agreement with us that excludes their rubber tire and tube industry without providing for a similar exclusion to protect our molded and extruded rubber products?

Mr. McNEILL. Senator, there is a symmetry as between the United States and Canadian items that will fall under duty-free treatment. The only rubber product that I am aware of that is excluded that is incorporated on a car, is a tire. Other rubber parts that are incorporated in a new vehicle are included in the agreement on both sides of the border. There is symmetry.

Senator TALMADGE. Your contention is then that it is not unilateral on the part of the Canadians insofar as their tire and tube industry is concerned?

Mr. McNEILL. Both the United States and Canada have excluded from duty-free treatment tires and tubes, yes, sir.

Senator TALMADGE. But no other rubber products of any kind?

Mr. McNEILL. To my knowledge no other rubber products incorporated in a new vehicle are excluded in both sides of the agreement.

Senator TALMADGE. Then the tariff rate would be zero on these molded or extruded rubber products?

Mr. McNEILL. Both ways, sir, so long as the product is for incorporation in a new motor vehicle. If it is a product to serve the so-called after or replacement market then there is again symmetry because both countries have excluded replacement parts from the agreement.

Senator TALMADGE. No further questions, Mr. Chairman.

The CHAIRMAN. Senator Hartke?

Senator HARTKE. Can someone—I don't know which one of the experts here—give us the background on just what started out as the so-called stroke and counterstroke proposition?

Will somebody just explain that? Who wants to take that on?

Senator SMATHERS. It is within the President's letter. The President's letter has it.

Senator HARTKE. I am talking about the history. Back before the first stroke was taken, what happened before blow No. 1?

Mr. McNEILL. Mr. Trezise?

Mr. TREZISE. Senator, the Canadians instituted a partial remission program in November 1962.

Senator HARTKE. Let's go back before blow No. 1. What was the situation then?

Mr. TREZISE. Well, before blow No. 1, Canada had a duty structure and a Canadian Commonwealth content structure which protected a Canadian automobile industry which was nevertheless dependent in part on supplies from the United States for the completion of finished automobiles.

Senator HARTKE. At that time what was the basic arrangement as to the Canadian content requirement?

Mr. TREZISE. Canadians required that 60 percent of the automobile by value be produced in Canada. This also had in it a duty structure which related to things of a class or a kind not made in Canada or, to put it another way, things of a class or kind made in Canada were subject to high duty, and this was the structure under which essentially the Canadian industry was built up.

Senator HARTKE. It was a rather protected industry, basically, at that time, wasn't it?

Mr. TREZISE. Yes, it was.

Senator HARTKE. In other words, considered highly protected?

Mr. TREZISE. Yes, it was.

Senator HARTKE. If the present Kennedy round operations go on through, of course, why there would be a substantial modification in that approach, isn't that true?

Mr. TREZISE. If the Canadians had reduced duties by the full amounts of the aim of the Kennedy round, duties would have come down, depending on their period, presumably from 17½ percent to 8¼

percent on cars and from a top level of 2 percent to 12½ percent on parts.

Senator HARTKE. That would be a reduction to 8¾ percent on automobiles from a previous percent of how much?

Mr. TREZISE. From 17½.

Senator HARTKE. And parts from?

Mr. TREZISE. From 25. This is, of course, quite hypothetical.

Senator HARTKE. I understand; 25 percent on parts to what?

Mr. TREZISE. To 12½ percent.

Senator HARTKE. If those negotiations had been permitted to occur in the Kennedy round, in the normal course of events that would have been the proper forum so far as we are concerned, generally speaking. Isn't that true?

Mr. TREZISE. On most tariff matters, Senator, yes. However, Canada is not a "linear" participant in the Kennedy round—that is Canada is not among the group who agreed to table 50-percent cut offers.

Senator HARTKE. Isn't it the policy of our Government to negotiate in the framework of the Kennedy round all of these matters between various countries and not just bilateral agreements? Isn't that true?

Mr. TREZISE. That is quite right.

Senator HARTKE. Is this policy now changed?

Mr. TREZISE. No, it has not changed.

Senator HARTKE. Is it still the policy of the United States to continue to operate within the framework of multilateral agreements such as are presently being conducted in the Kennedy round?

Mr. TREZISE. That is still the policy of the United States.

Senator HARTKE. But this is a digression and departure from that policy.

Mr. TREZISE. Senator, this is a technical department from most-favored-nations treatment but I emphasize "technical."

Senator HARTKE. Let's come back again to it. We will come back to the most favored nations in just a moment. Is this a policy change or is this a policy digression or is it a policy—I am not trying to put words into your mouth, I am trying to have you come up with what it is. Describes this animal.

Mr. TREZISE. Well, this is a bilateral agreement with Canada.

Senator HARTKE. Right.

Mr. TREZISE. Which technically violates our most-favored-nation commitment in the GATT.

Now, the most-favored-nation commitment, Senator, is intended to prevent the use of tariffs in a discriminatory fashion against other partners, other trading partners.

Now, this agreement does not discriminate against our other automobile trading partners. They have every bit as much access to our market on the same terms as they had before. They are not disadvantaged in any way or fashion and, Canada provides duty-free treatment on a most-favored-nation basis.

So, the GATT provides in article 25 that a waiver may be allowed for departures from article 1, the most-favored-nation clause, in exceptional circumstances. We think, and we have explained to our trading partners that we have a situation of exceptional circumstances here which entitles us, as other people have entitled themselves, to a

waiver under article 25. This makes us perfectly clean and square with the GATT, and with all our commitments and with our basic trade policy.

As long as we are not discriminating against a third party, and we are not.

Senator HARTKE. Has such a statement been filed with GATT?

Mr. TREZISE. We are prepared to file a statement formally requesting a waiver after the Congress has acted on this legislation. We thought it not appropriate to act before Congress had done it.

Senator HARTKE. Has such notice of intention been filed?

Mr. TREZISE. We have discussed the problem on a number of occasions in Geneva with our trading partners, and they are aware we are prepared to ask for a waiver.

Senator HARTKE. What has been the British attitude on this?

Mr. TREZISE. The British were initially, I guess, the most vocal in raising questions about the agreement. I think we have come some distance, Senator, in getting greater understanding.

Senator HARTKE. But it is still a subject of debate in Parliament, is it not, of discussion there?

Mr. TREZISE. Parliament is not sitting so I don't know but it has been mentioned in Parliament.

Senator HARTKE. Up to the time Parliament adjourned, is that true?

Mr. TREZISE. I think I can say, however, with some confidence that, well, we believe we will be able to achieve a satisfactory measure of understanding with the British.

Senator HARTKE. You have received some communication from them indicating that they are satisfied with what you are doing?

Mr. TREZISE. No, but we have rather lengthy conversations with them as, I think, have our Canadian friends.

Senator HARTKE. Let's come back before blow No. 1. What was the so-called percentage of the North American market that was held by Canada and held by the United States?

Mr. TREZISE. I think it was about 4 percent on the part of Canada and 96 percent on the part of the United States, although when you are talking about before No. 1 I am not sure exactly when you mean.

Senator HARTKE. I think that is a fair statement. I think we will agree on that.

The purpose of the so-called remissions scheme was simply to increase their percentage of the market; isn't that true?

Mr. TREZISE. I think their remissions scheme was intended initially, Senator, primarily to increase exports to the United States and to other markets, and in fact had that effect.

Senator HARTKE. In fact, it did have that effect, isn't that true? By how much, do you know?

Mr. TREZISE. No, I don't know. I can give you the figures for the U.S. market, but Canada's exports went to a good many other markets as well.

Senator HARTKE. Yes.

Mr. TREZISE. In the case of the United States, our data, our Census Bureau data show, if we take 1960 or 1961 as a beginning year, we imported, our imports went up from about \$8 million to about \$76 million.

Senator HARTKE. This is a substantial increase; isn't that true?

Mr. TREZISE. Yes. Our exports went up a great deal more, of course; our exports went from \$380 to \$654 million.

Senator HARTKE. The increase at that time under the duty remission plan or scheme or whatever you want to call it, was intended, as to all intents and purposes to aid the Canadian automotive industry and the parts manufacturing industry there; isn't that true?

Mr. TREZISE. I perhaps shouldn't put motivations into the mouths and minds of Canadian officials. My understanding is, Senator, that it was aimed primarily initially at the balance of trade in automobiles rather than the industry as such but obviously it had that effect.

Senator HARTKE. That is a question into which I don't want to go. But there was a statement made at that time before this remissions plan went into effect; isn't that true?

Mr. TREZISE. A statement?

Senator HARTKE. A statement in Canada by their Minister of Automotive, whatever his title is.

Mr. TREZISE. Minister of Industry.

Senator HARTKE. Ministry of Industry?

Mr. TREZISE. Yes.

Senator HARTKE. What was his name, prior to the time the remissions plan went into effect? What was his name?

Mr. TREZISE. I am afraid, Senator, I can't answer that. I don't recall.

Senator HARTKE. I am correct, am I not, that his statement was that they intended to increase their imports?

Mr. McNEILL. I am not sure of the specific statement you refer to. I have discussed this whole matter with Minister Drury, and know him, and a statement of his was to increase employment and production in a very important sector of the Canadian economy through the utilization of the remission program.

Senator HARTKE. Then as a result of that, there were some repercussions on the American side; isn't that a fair statement?

Mr. McNEILL. Yes.

Mr. TREZISE. We had some letters from some of your colleagues, I believe, and from parts manufacturers.

Senator HARTKE. In fact, legal action was instituted when we couldn't persuade the State Department to follow the law; isn't that true?

Mr. TREZISE. Well, I would have to say, Senator, that the countervailing duty statute falls under the Treasury and not State Department.

Senator HARTKE. Treasury is not here, are they?

Mr. TREZISE. No.

Senator HARTKE. Mr. Chairman, I call to the attention of the chairman that I do not see the Treasury, scheduled to be a witness, and I would think they probably ought to be here in view of the fact that the balance of payments—

Mr. BOYETT. I represent the Bureau of Customs, and I will do my best to respond.

Senator HARTKE. Are you prepared to testify on the balance of payments, too?

Mr. BOYETT. No, sir.

Senator HARTKE. Mr. Chairman, I just want to renew my observation that the Treasury is not here, although we have the Secretary of Labor, the Secretary of Commerce, the Secretary of State, whose jurisdiction is not generally before us in the Finance Committee.

Secretary CONNOR. Mr. Chairman, I am prepared to talk about any question of the balance of payments.

Senator HARTKE. Mr. Chairman, I am interested in the Treasury's position on the balance of payments, because we evidently have two policies here, one for the Commerce Department and one for Treasury. I would like to find out which policy the Government intends to follow, and I would like at this time to make an official request that the Treasury be asked to testify.

My time has expired.

Senator SMATHERS. May I not suggest to the chairman that this matter be discussed at the end of this meeting and the chairman, let the chairman get in touch with the Secretary of the Treasury and see what his wishes are.

Senator HARTKE. I am perfectly willing to do that.

The CHAIRMAN. No objection.

Senator WILLIAMS. There is no objection to calling the Secretary of the Treasury, but the administration should know if this bill is going to be delayed it is not going to be passed. We hope to adjourn before Christmas with or without this bill.

Senator SMATHERS. The Senator from Indiana is not filibustering this bill, but if the chairman would contact the Secretary of the Treasury to see if something could not be worked out—

Senator HARTKE. That is perfectly all right with me. I am willing to come back. I want to come back to the fact that the so-called first blow really in effect was unilateral action primarily directed at the United States according to the Ministry of Canada, primarily to increase employment in Canada, and increase exports to the United States.

Isn't that true?

And if had that effect, did it not?

Mr. McNEILL. Yes.

Senator HARTKE. The net result was to decrease employment, or at least decrease the share of the market in which some of our domestic people were involved. This was complete unilateral action taken illegally, and nothing was done by the State Department to rectify this matter. Isn't that true?

Mr. MANN. Senator, I wonder if I might say something.

Senator HARTKE. I would like to have a clarification of that. It appears to be that what Canada did here was strictly illegal, and what we have done is to compound the illegality and make it legal without any, well, maybe I had better listen.

Mr. MANN. The GATT, as a practical matter, works very well in terms of highly industrialized nations, nations which do not have infant industries and which are incapable of becoming competitive with the outside world.

The GATT in practice and in reality has not been applied in a great number of countries in the developing world simply because if they exposed their infant industries to unlimited competition by the highly industrialized economies, they would never be able to industrialize.

All economists that I know anything about agree that the countries which are developing new industries, particularly in competition with an industry as highly efficient as our automobile industry is, needs to have some time in order to be able to compete.

Now, essentially, the Canadian protective attitude toward their developing automobile industry is no worse than, and in many respects is more liberal than, government policies of a half dozen or a dozen countries around the world which are trying to develop automotive industries.

The proof of that lies in trade figures that we have talked about in this hearing.

Our favorable balance in automotive products trade is about \$500 million a year net to us, and our total favorable balance in our \$9 billion two-way trade on the commercial account, is running at about \$657 million.

So that the problem that you are talking about, Senator, you are quite right, that many countries of the world, including Canada, are protecting infant automotive industries.

Senator HARTKE. Yes. But the point is that the remissions scheme itself—well, let me ask you a question—was a remissions scheme submitted to us at any time in advance? Was it agreed to at any time by anybody in our Government?

Mr. MANN. The remissions scheme was never agreed to by anybody in this Government, and in fact we registered strong objections.

Senator HARTKE. What I am trying to determine is wasn't this unilateral action taken by the Canadian Government without prior consultation with our Government?

Mr. MANN. I believe that is correct. I think it was unilateral action. As far as I know, there was no consultation with the United States.

Senator HARTKE. In all fairness, if the State Department had acted under the law countervailing duties would have had to have been imposed legally, if some agreement hadn't been reached; isn't that true?

Mr. MANN. Well, I think, not that I want to apologize for being with the State Department, but I think we ought to talk about the U.S. Government on the countervailing duty matter, because that is a Treasury function.

Senator HARTKE. You see, that is the difficulty right here.

Here we are with the Treasury Department absent. They did not impose countervailing duties. But as I understood the testimony here from some of the other witnesses from yesterday and today, that this action was taken because the remissions scheme was in effect and it was not working satisfactorily.

Mr. MANN. Senator, I think our position was that we did not like the Canadian remission plan. We made our views known to the Canadian Government. Actually the document before you here was largely born out of our desire to get rid of discriminatory treatment and to move toward liberal trade instead of more protection.

Senator HARTKE. Let me ask you here concerning this document. Was the remissions scheme the germ which started its growth, or was this document in negotiation prior to the time that the remission scheme was first put into effect and announced?

Mr. MANN. Well, certainly the remissions scheme was one of the factors that led both governments to discuss—

Senator HARTKE. Well, was there any negotiation in this field whatsoever prior to the time that the remissions scheme was in operation?

Mr. MANN. No, I believe not.

Senator HARTKE. In other words, in all fairness, and I mean to be quite objective about it, whether you agreed with the legislation or the agreement or not, the truth of it is the remissions scheme was the germ or the initial stroke which required some action on the part of our Government one way or the other.

Mr. MANN. It was one of the factors. We don't rely on that for justification of the agreement. We justify the agreement on the ground that it serves U.S. interests—but certainly the remission—

Senator HARTKE. Certainly the President said and I commend him for it, that his approach to this matter was rather than go ahead and impose countervailing duties a procedure which according to the Treasury information to us they agreed with—

The CHAIRMAN. The Chair is very sorry to interrupt you, but your 15-minute questioning period for the first round of questioning has expired. That was an agreement made before the chairman arrived.

Senator HARTKE. As I understood, it was so that other people could ask questions.

Fine.

Senator SMATHERS. You will get another chance.

The CHAIRMAN. You will be allowed unlimited time on the second round of questioning.

Senator HARTKE. Fine.

The CHAIRMAN. I am very sorry to interrupt the Senator.

Senator MORTON. I yield the balance of my time, Mr. Chairman.

Senator WILLIAMS. I yield the balance of my time.

Senator SMATHERS. Senator Dirksen is the only one who hasn't had a chance to ask questions.

The CHAIRMAN. Senator Dirksen?

Senator DIRKSEN. Mr. Chairman, I have only one question.

I wonder why article 5 was inserted in the text of the treaty. It is only a single sentence and it reads:

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

Now, if the objective of this agreement is to bring about a better trade relationship with Canada why should a comparable benefit be extended to every other country, because, as I read that, the President could negotiate with Britain, and with France, with Italy, with Germany, and with Japan for equivalent benefits so that they would all come in duty free. Is that necessary for the protection of this treaty?

Mr. TREZISE. Senator, this article was placed in the agreement essentially to make it clear to our other trading partners that if they wished to negotiate mutual duty-free access on automobiles, that we would be prepared to consider their position.

Now, this was intended, quite frankly, to give them the opportunity to do the same kind of business with us as the Canadians are doing.

We don't, equally frankly, expect we will have any takers here.

The truth is that our duty structure is about the lowest in the world, we don't quite expect that other countries whose duties generally are higher than ours and who in many cases have other so-called nontariff barriers, protecting their industries, will be coming to our doorstep and asking to negotiate.

But the opportunity, we thought, should be there, and the Canadians felt the same way. So this is really intended to give an opportunity to our other trading partners who are interested in this area.

Senator DIRKSEN. But the agreement begins by reciting that the Government of the United States and the Government of Canada will strengthen the economic relations between their two countries, and that is the whole burden and the whole emphasis, so why article 5, why include the whole wide world?

Mr. TREZISE. This was, as I say, Senator, intended to meet expected questions and possibly objection from third parties. As I say, we did not expect a third party would feel it in their interest to take advantage of this proposal, this possibility of negotiation. In practice, we have not had any inquiry from our other trading partners about this clause, and I don't expect we will have any. But it was considered, I may say, on advice of a number of people, that this would be a useful element to have in the agreement. It obviously has little practical significance in the present circumstances.

Senator DIRKSEN. Well, if it has no practical significance, why include it?

Mr. McNEILL. Senator Dirksen, if I may add to what Mr. Trezise has just said, it does have, I think, a practical aspect and it is this. If other groups of countries, say the EFTA countries and the EEC countries chose to enter into an agreement among themselves on a particular commodity, pulp paper, aluminum, whatever you like, that we would have established in our legislation and in our request for a waiver from the GATT, a precedent in the agreement with Canada, that such agreements between two industrialized groups should be opened for others to later adhere to. So it does have that very important aspect.

Senator DIRKSEN. As I read this language, do you agree that if such agreements can be entered into and benefits accorded on similar terms to other countries, can't you negotiate those agreements without having to come back to the Congress? It is not a treaty.

Mr. MANN. As the Senator knows, the House has inserted a provision on this point requiring that all agreements entered into would have to lie in the Senate and the House for a period of 60 days to give the two Houses of Congress the opportunity to register their disapproval if they wish to do so.

If the issue is whether we should come to Congress in advance, as far as I am personally concerned, we wouldn't want to make a great issue of that, Senator.

Senator DIRKSEN. Well, Mr. Secretary, I would assume that the Congress could express its disapproval but the executive branch could go ahead with any such agreement.

Mr. MANN. This was a condition, as I understand it this was a condition, the amendment inserted in the House, was a condition or a limitation on the right of the Executive to enter into such agreements if the Congress did take action.

Senator DIRKSEN. But, Mr. Secretary, once the authority is delegated, it is out of the hands of Congress, and any resolution of disapproval would be an invasion of the Executive power.

Mr. MANN. My understanding is that the amendment introduced in the House, and which we accepted, does give the Congress the veto power over whatever the Executive might wish to recommend or do in terms of new agreements.

Senator DIRKSEN. That is all.

Senator SMATHERS. I would like to direct a rather hypothetical question to Secretary Connor.

Mr. Secretary, as I understand it, and I wish that you would indicate whether you agree with me or not, you are charged with improving business both at home and improving trade with foreign countries where that trade with foreign countries is advantageous to the United States.

Is that a correct statement?

Secretary CONNOR. Yes, it is, Senator Smathers.

Senator SMATHERS. I would also like to have Secretary Mann listen to this question.

Mr. MANN. Yes, sir.

Senator SMATHERS. If we had a favorable balance of trade payments with friendly country X, because of our getting a net inflow of dollars from that country, you would not approve, I take it, of an act that would cut off or substantially diminish that favorable balance of trade when it was favorable to the United States. Is that correct, Mr. Secretary?

I am talking to Secretary Connor, with the attention of Secretary Mann.

Secretary CONNOR. Senator Smathers, generally, that is the case, but it would depend, of course, on the facts in a particular situation as to how that favorable balance of trade emerged, and also what the balance-of-payments situation was, but—

Senator SMATHERS. Right.

Secretary CONNOR. Generally the answer is in the affirmative.

Senator SMATHERS. I would amend the question, then, by saying if we had a favorable balance of trade and a favorable balance of payments with any friendly country, then it is to be generally presumed you would not favor any act that would cut off or diminish that trade.

Secretary CONNOR. That is correct, Senator. But we must recognize that these other nations are sovereign nations and as has been the case in the last year or two, because of their own balance-of-payments problems or some internal situation that sometimes they do take actions for their own interest and their own protection that does have an effect on us of diminishing a favorable balance of trade, as one example.

Senator SMATHERS. I could add as a further hypothesis to my question, that country X had done nothing except to give us what amounted to a very favorable balance of trade and very favorable balance-of-payments position. It is my understanding that we would not do anything to interfere with that favorable balance of trade or payments position.

Secretary CONNOR. No, sir; we would prize the relationship highly.

Senator SMATHERS. All right.

If that favorable balance of trade or payments resulted from a net inflow of dollars, a net gain to us in dollars from tourist trade; I take it that you would not recommend that that tourist trade or that tourist traffic should be diminished or cut off.

Secretary CONNOR. No, sir; I would encourage its continued growth.

Senator SMATHERS. All right, sir.

I thank you for that statement.

I am sort of like the Senator from Indiana. I want to get you to meet with the Secretary of the Treasury one of these days in light of the fact that the Secretary of the Treasury has recommended on several instances and we have passed, over my objection, and over many Senators' objections, a bill which cuts off tourist travel into certain areas where the dollars which our tourists spend redound to the benefit of the United States. For each dollar spent by our tourists we get back \$1.67. This law has not improved our balance-of-payments position or our balance of trade. It has only hurt us. Thank you, Mr. Secretary, for your statement.

And having stated it, I need to get you people together, with the Secretary of the Treasury.

The CHAIRMAN. Senator Morton?

Senator MORTON. Mr. Chairman, only this. I agree with much that the Senator from Illinois has said. But I point out that there are treaties and agreements that have been resting before the Foreign Relations Committee for as much as 15 years, and the Senate hasn't seen fit to give advice and consent, and we have such controversial agreements that have been negotiated by our administration, both under Republicans and Democrats. The Senate has never seen fit to even call them up or vote out of committee, and what I say here to take action, I am not saying that we have to vote for this, because we have got a gun at our heads. We can vote against it. But I do think that in this case that we should at this session of Congress bring this matter to a conclusion, yea or nay.

Senator DOUGLAS. I agree. I think we should have known more about this.

Senator MORTON. We are finding out an awful lot about it.

Senator DOUGLAS. We are finding out more now.

Senator MORTON. Remembering how this committee, long before I was a member of this committee, used to have night sessions with members of the Cabinet, and when our late beloved and respected colleague, the Senator from Nevada, Molly Malone, broadened all of our intellectual horizons on the question of foreign trade and we spent many hours, I remember the Secretary of State testified for 7 consecutive hours answering questions from our late beloved colleague, and I think that contributed a lot to the broadening of the intellectual horizons of the Members of the Senate, and this hearing is doing the same.

Senator DOUGLAS. May I say, of course very frequently the legislative branch abuses this function. I happen to have been an old Woodrow Wilson supporter, and supporter of the League of Nations. The Foreign Relations Committee was very rough to him in 1919, and I have supported international cooperation measures, and I agree that very frequently it has been that way.

Nevertheless, I think it is proper to point out, especially to the permanent personnel of these departments who run the departments, that they shouldn't have the same contempt for the legislative process which they frequently evince and they should be reminded that this is a government not merely of two branches but of three branches.

Mr. MANN. Senator, if I might say one thing, there is no one in the Department of State who has anything but the highest respect for the Senate and the Senator from Illinois.

Senator DOUGLAS. I am happy to hear that. I know it is not the situation in your case, but I can only say there are people who tend to bypass the Senate.

If you get to a definition of an Executive agreement and a treaty, it boils down to this. An Executive agreement does not have to be ratified by the Senate and a treaty does. But as to why one act is being put in one category rather than another, is made the sole determination of the Department; secretaries come and go, assistant secretaries come and go; but the Foreign Services goes on forever. [Laughter.]

The Civil Service goes on forever, and their purpose is to create in the United States the same system they have in England where Parliament has now become virtually ineffective in dealing with foreign affairs. That has been copied in the Commonwealth. The decisions are made, they are put into effect by orders in council. There is no legislative control over them, and it is a system which is touted in this country, and is gradually coming into being in this country, and not so gradually, either; quite rapidly.

Mr. MANN. Senator—

Senator DOUGLAS. As one who has fought the isolationists in the Senate and in the country, and has waged political campaigns in my own State in support of the League of Nations, of the United Nations, of NATO and the rest, I simply must say I protest.

The CHAIRMAN. Senator Hartke?

Senator HARTKE. To come back to the stroke and counterstroke. Now, the so-called overall scheme which caused all this difficulty we are in today is the so-called Bladen scheme. That is what has caused the difficulty we are in today, isn't that right?

Mr. TREZISE. There was a Bladen report, Senator. I don't think a plan emerged at the time of the so-called Bladen report.

Senator HARTKE. There were a series of developments, I am told, which followed the so-called Bladen plan. The remission scheme was really an all-in-one-part effort, isn't that true?

Mr. TREZISE. Yes. In 1962 the remission scheme was limited to automotive transmissions, and—

Senator HARTKE. Very limited numbers, but it proved very successful, did it not?

Mr. TREZISE. Well, successful, exports went up.

Senator HARTKE. Exports went up. On parts from 1960 on, from \$9 million to \$30 million.

Mr. TREZISE. No, they—

Senator DOUGLAS. I have just received word from Canada, by way of a press dispatch from Calgary:

Canadian car buyers will not receive any price reductions as a result of Canadian-United States Automotive Treaty Agreement, Ron W. Todgham, president of Chrysler, Ltd., of Canada said here yesterday. Mr. Todgham says he

hopes Canadian auto manufacturers will hold to their 1965 price levels, although he indicated even this may be impossible. His remarks came as the company wound up a press preview showing of Chrysler's 1968 model line. The effect of the auto agreement will be to narrow the price spread between autos sold in the United States and Canada, he said, but as for a drop in Canadian prices, this is definitely out.

Those who wish to verify this, this was published this morning in the Toronto Globe & Mail, Wednesday, September 15, page 4 of the business section.

Could anything be more eloquent?

I thank my colleague.

The CHAIRMAN. Senator Hartke.

Senator HARTKE. Phase 1 did have success, did it not?

Mr. TREZISE. Canadian exports under the definitions of our Bureau of the Census went up from in 1962, \$8.4 million to \$18.8 million in 1963. Whether this was attributable to the remission plan in its limited form I cannot testify.

Senator HARTKE. I have \$30 million in 1963.

Mr. TREZISE. I am sorry. I am reading the wrong column. From \$9.5 million to \$29.4. Senator, you have a different set of data. We use Canadian data, and our data—we thought Canadian data are more inclusive.

Senator HARTKE. Whose data are you using?

Mr. TREZISE. The Bureau of the Census. That is what I am using. They are not greatly different, but their coverage is more inclusive.

Senator HARTKE. Then they put in phase 2; did they not?

Mr. TREZISE. They put in phase 2 in November 1963.

Senator HARTKE. What happened with phase 2?

Mr. TREZISE. Our figures show—

Senator HARTKE. They extended it to what besides the transmissions? First, it was practically on nothing but transmissions, was it not?

Mr. McNEILL. Engine blocks and transmissions.

Senator HARTKE. Then in 1963 they went all the way across the board, isn't that true?

Mr. TREZISE. That is right.

Senator HARTKE. Then December 14, 1963—let us come back. When was the expansion, the second part, when did it occur?

Mr. McNEILL. November 1, 1963.

Senator HARTKE. What?

Mr. McNEILL. November 1, 1963.

Senator HARTKE. Then about 6 weeks after that, one of the oldest names in automobile manufacturing, with its headquarters in South Bend, Ind., notified us they were closing the plant forever in South Bend, Ind., and going to go to Canada, right?

Mr. McNEILL. Yes, sir.

Senator HARTKE. In their comments they said, referring to their expanded plan when they moved from South Bend to Hamilton, the economic climate in Canada thus established and enforced at the time was tailormade "for our movement to Canada."

Mr. Wirtz, let me ask you, how much money have we spent in re-training people in South Bend as a result of that move, do you know?

Secretary WIRTZ. I will supply the figure for the record, but it is

probably in the neighborhood of—I would defer it—it would be in the neighborhood of three-quarters of a million dollars.

Mr. WIRTZ. We have spent \$2,240,000 in MDTA funds over and above what we normally would have spent in South Bend, Ind., as a result of the Studebaker plant closing.

In addition to the above figure, we funded an older worker experimentation project totaling \$371,300.

This latter project, of course, could have been funded anywhere in the country. We picked South Bend because of the older worker problems raised by the Studebaker shutdown.

Senator HARTKE. And those programs are still continuing, are they not?

Secretary WIRTZ. Several of them are still continuing.

Senator HARTKE. It has been very successful, I might say, and I want to compliment the Secretary of Labor upon that. I am not being critical of it, but I just say this gives a little bit of a demonstration of what happens.

About the same time, June 3, 1964, from Muncie, Ind., we received a petition of 10,000 names in reference to the remission of scheme because they had a general plant layoff due to the increase of imports of parts. Those names were submitted to the Treasury Department, because it was the responsible agency for imposing countervailing duties. Are you familiar with that, the layoff at Muncie which occurred as a result of the increased import of parts?

Mr. McNEILL. Which establishment was that, sir?

Senator HARTKE. In Muncie it is—

Mr. McNEILL. Borg-Warner.

Senator HARTKE. Yes. The Borg-Warner plant. Are you familiar with this?

Secretary CONNOR. I personally am not, Senator Hartke.

Mr. McNEILL. I personally am not either, sir.

Senator HARTKE. Then in 1964 the McCord Radiator plant left and said that as far as they were concerned the climate for moving to Canada was conducive to their leaving Plymouth, Ind., to move to Canada, too. Are you acquainted with these facts?

Mr. McNEILL. I believe, sir, the McCord Co. had a radiator plant in Canada already.

Senator HARTKE. That is right. They moved all their operations. That Plymouth plant is closed down completely.

Then after the agreement was put into effect, isn't it true that there is still at this time pending a petition concerning the Modine operation, part of which is in Wisconsin, a part of which is in Indiana, and a part of which is in Paducah, Ky., involving a threatened move of the Paducah plant to Canada, and that petition is now on file with the Treasury Department asking for countervailing duty, saying even the agreement as now written is in violation of the 1980 Tariff Act, is this true?

Mr. TREZISE. There is a petition before the Treasury, Senator, which, I think, has been answered.

Secretary CONNOR. Our information is that that complaint has been dismissed by the Treasury, Senator Hartke.

Senator HARTKE. The one at Paducah?

Mr. McNEILL. Yes, sir.

Senator HARTKE. Filed April 17, 1965.

Secretary CONNOR. That is our information.

Mr. McNEILL. It was published in the Federal Register.

Senator HARTKE. The Bureau of Customs man is here, and he might be able to answer that.

Mr. BOYETT. Yes, sir. It definitely was dismissed, and I have the specific Federal Register with me if you would like to see it.

Senator HARTKE. What has happened down at Paducah?

Mr. BOYETT. I couldn't answer that, sir.

Senator HARTKE. Let us come back to this cost matter a moment then. I do not know who wants to answer this. Do cars cost more in Canada than in the United States?

Mr. McNEILL. Yes, sir.

Senator HARTKE. About how much more?

Mr. McNEILL. An average of 10 to 12 percent, I would say, sir.

Senator HARTKE. Some people say 15.

Mr. McNEILL. It depends on your duty adjustment. If you leave your duty out you go up as high as 18, but I think taking into account the duty, 10 percent.

Senator HARTKE. Ten to twelve percent, is that true?

Mr. McNEILL. Yes, sir.

Senator HARTKE. Are labor costs there less expensive?

Mr. McNEILL. Yes, sir. About 75 percent of the cost of domestic labor in the auto industry.

Senator HARTKE. Yes. In other words, in 1963—

Mr. McNEILL. Wages, I am sorry.

Secretary WIRTZ. Was it a question about labor costs?

Senator HARTKE. Wages.

Secretary WIRTZ. Wages are lower by 20 to 25 percent. Labor costs per unit are higher significantly.

Senator HARTKE. That is on productivity.

Secretary WIRTZ. Yes.

Mr. McNEILL. Yes.

Senator HARTKE. But the wages are lower and the cars cost more; isn't that true?

Mr. McNEILL. Yes.

Senator HARTKE. And is there any indication even in spite of what Senator Douglas has said here, is there any indication that we can expect that costs will come down at all?

Secretary CONNOR. Senator Hartke, as I stated in my testimony, when you have short production runs your costs of production are much higher than when you have long production runs. So even though there is a lower labor cost per unit produced, the labor costs are higher in Canada than they are in the United States. That necessarily means that you are going to have a final price to the consumer that is higher.

Now, the expectation, is as was stated in the text of the agreement, one of the main purposes will be the development of conditions in which market forces may operate effectively to attain the most economic pattern of investment, production, and trade. Over a period of time, a reasonable expectation is that the rationalization of production that is possible if this agreement is approved will enable production costs

in Canada overall to be reduced and, therefore, as a result of the market forces the prices should come down.

Senator HARTKE. This is a supposition and cannot be proved at the moment either way; is that true?

Secretary CONNOR. It certainly can be proved, Senator Hartke, on the basis of past experience in this and other industries in many different countries of the world. This is what happens when you do have an integration of production facilities without these artificial trade barriers which are being removed as a result of this agreement.

Senator HARTKE. How much artificial trade barrier is left?

Secretary CONNOR. There are some with respect to the replacement parts situation. There are these requirements that the Canadian Government worked out with the automobile manufacturers for this transition period, but aside from those, the trade has been freed appreciably.

Senator HARTKE. Now, these letters that you have referred to, those are by the American producers; is that true?

Secretary CONNOR. They are the Canadian companies—

Senator HARTKE. The American Canadian companies.

Secretary CONNOR. Well, they are subsidiaries of American companies, but they are Canadian corporations doing business in Canada, subject to the jurisdiction of the Canadian Government. These four companies entered into agreements, and these are now in the record.

Senator HARTKE. Have all of them been made public now?

Secretary CONNOR. Yes, sir. They are all in the record from the House committee.

Senator HARTKE. All of the letters?

Secretary CONNOR. The letters of the major automobile assemblers have been made part of the House record which is before this committee.

Senator HARTKE. If this agreement is carried into effect, and the collateral agreements or letters, what do you refer to them as—

Mr. McNEILL. Letters.

Senator HARTKE. Letters of agreement?

Mr. McNEILL. Letters of intention.

Senator HARTKE. Letters of intention are carried out, if this is done, what will be the result so far as Canadian production of automotive products is concerned? Will it increase between the period of the 1968 model year?

Secretary CONNOR. Yes, sir. That would be the expectation that the production of automobiles in Canada would be increased and it would, therefore, amount to a larger percentage of Canadian consumption of automobiles than has been the case.

Senator HARTKE. All right.

The truth of it is this will occur not alone in the production of parts, but also in assembly, isn't that true?

Secretary CONNOR. Yes, sir; it is.

Senator HARTKE. And by 1968 then, that model year, the Canadian portion of the North American automotive production will be significantly higher in Canada and, therefore, as a corollary, significantly lower in the United States.

Secretary CONNOR. The Canadian proportion would rise from a level of about 4.1 percent to 5 percent of the entire North American market. This will be due mainly to an increase in the Canadian

market of Canadian production, but we think that the market will expand so that there will be no increase. On the contrary, there will be an increase in the number of units produced and sold by American manufacturers.

Senator HARTKE. Well, Mr. Secretary, let us just come on back and take one step at a time without some conclusion if we can. We can go through these things leisurely. What I am saying is, the Canadian production and their share of the market will increase under this agreement. That is the plan, and that is what is anticipated.

Secretary CONNOR. Yes, sir; that is the anticipation.

Senator HARTKE. In the North American market. Is it true also that the U.S. production will decrease by an equal amount?

Secretary CONNOR. Not in volume, no, but in percentage.

Senator HARTKE. In percentage. What will happen to the so-called Canadian content which, I think, in the agreement is now called the Canadian value added, what will be the result of that as a result of this agreement? Will it be materially larger than before?

Mr. CONNOR. Mr. McNeill is an expert in this.

Senator HARTKE. Will it be larger with the tariff protection as it was under the remission scheme or will it be lower?

Mr. McNEILL. The fixed 60-percent requirement no longer exists and, as you have correctly stated it, there is a value added undertaking on the part of the companies. The undertakings are expressed in fixed terms, that is in dollar terms.

As production continues to increase in Canada in dollar terms, over and above the minimum undertaking, the contents requirement will be diluted to the extent of the increased production above the floor, so that in the long run over the next years of this agreement, it is very likely and prospective that the contents will be diluted to the extent of increased production.

Senator HARTKE. Is this opinion shared by all members of the Government, all departments?

Mr. McNEILL. Yes, sir.

Senator HARTKE. And if other testimony is developed here from other departments of the Government that that is not true, will you be willing to review their figures to see what is the occasion for the difference, if it would be materially larger or materially smaller?

Mr. McNEILL. I would certainly be willing to review their assumptions, their estimates, and match them against ours.

Senator HARTKE. I think it will be shown before the hearings are over that the Canadian content will be materially larger than it was under the tariff plan but less than it would have been under the remission scheme, you understand. We are in agreement to this extent, that as far as the remission scheme is concerned that there would have been a reduction.

Mr. McNEILL. A reduction of what, sir?

Senator HARTKE. In the value, the value content, what is it called, the Canadian value added?

Mr. McNEILL. No, sir.

Senator HARTKE. You do not.

Now, the agreement itself makes certain statements—

Mr. McNEILL. Senator, if I may, the remission scheme had nothing to do with the 60-percent contents, it did not affect it.

Senator HARTKE. I understand. But they were actually reducing it from 65 to 60 percent, isn't that correct?

Mr. McNEILL. No, sir. The Canadian contents has been for a number of years and was for a number of years 60 percent.

Senator HARTKE. Under this agreement isn't it agreed in the letters that they have agreed to hold it at 60 percent?

Mr. McNEILL. The letters, sir, express undertakings that the companies will produce in the years, succeeding years, of the agreement through model year 1968 no less in absolute terms than they produced collectively in the model year 1964.

Additionally they agreed to add value in Canada to the extent of 58 percent of the increased consumption of automobiles in Canada through model year 1968. The third factor we have been discussing is the \$240 million.

Senator HARTKE. In the Canadian annex to the agreement, which is annex A, the terms "Canadian value added" and "net sales value" are defined to have the meaning assigned by regulations made under section 273 of the Canadian Customs Act; is that right?

Mr. McNEILL. Yes, sir.

Senator HARTKE. Is that right?

Mr. McNEILL. I am informed—

Secretary CONNOR. Annex A does state that, yes, sir.

Senator HARTKE. Under the agreement are these terms fixed in their meaning or may the Canadians unilaterally change their regulations?

Mr. McNEILL. If they would change the substance, sir, of the regulations in light of this agreement, I am sure they would only do it after consultation with this Government.

Senator HARTKE. I didn't ask you whether they would or would not. I asked you whether they could.

Secretary CONNOR. I think a reasonable interpretation would be that this agreement has this definition as it existed at that time, at the time of the agreement, and this persists through the life of the agreement. It cannot be changed unilaterally.

Mr. McNEILL. That is correct, sir, they cannot.

Senator HARTKE. I do not see that. If it is not true, why, the terms of the company undertakings and the agreement itself could end up in being detrimental to the U.S. interests without any prior consultation, without any agreement on our part; isn't that true?

Mr. McNEILL. No, sir. They could not change any features of annexes A or B which are an integral part of the agreement negotiated.

Senator HARTKE. Did our negotiators take this up with them at all as to whether this could be changed?

Mr. McNEILL. Yes, we did discuss that with them. It is very clear they could not unilaterally by the terms of the agreement change it.

Senator HARTKE. Why did not you put it into the agreement then? Or would you be willing to put it into the agreement or have it modified to more definitely spell out that these requirements and these definitions of terms are going to be in stated form rather than referring to the section of a Canadian Customs Act?

Mr. TREZISE. Senator, the annex is an integral part of the agreement. The agreement stands as a whole. If the Canadians were to

alter any part they would alter the entire agreement, and we would feel no longer obliged to be parties to the agreement.

Senator HARTKE. Did we get any quid pro quo when we agreed to this section?

Mr. TREZISE. Which section?

Senator HARTKE. This section here regarding the definitions of terms.

Mr. TREZISE. The agreement as a whole stands on its own feet. We think it was in the American interest, taken in its totality, and we will receive substantial benefit from it.

Senator HARTKE. As I understand it, it is bound by section 273, isn't that it, of the Canadian Customs Act? Is that true?

Mr. TREZISE. You have the document.

Secretary CONNOR. I have it in front of me. It reads as follows:

Net sales value. Has the meaning assigned under regulations by 273 of the Canadian Customs Act.

Senator HARTKE. The regulations of 273 are then binding?

Secretary CONNOR. As they existed at that time; yes, sir.

Senator HARTKE. I understand that.

Let me read from section 273 to you for your edification and information, and I want to know just exactly where we are. This is from the Customs Act of TRSC 1952, chapter 58 as amended in 1953 and 1954, chapter 3 in 1955, and chapter 32 and 1958 chapter 26. Let me read that first paragraph to you under section 273:

The Governor in council may from time to time and in the manner hereafter provided in addition to the other purposes and matters in this act mentioned make regulations for or relating to the following purposes and matters.

This gives the Governor in council complete authority for the Canadians, as the agreement is now written, to make modifications as long as they follow the procedures which are set forth in the sections.

Mr. TREZISE. I would like to say we are dealing with the Government of Canada, a friendly government, not with an enemy government. We don't anticipate that the Canadians are going to use any power which may reside in the Governor generally to cheat us. This is not an expectation of reasonable probability.

Senator HARTKE. You say this is a friendly government. Was it a friendly act when they put into effect a remissions scheme in violation of our own laws and which would have required us to come up with a counterstroke? Was that the action of a friendly government?

Mr. TREZISE. I don't think the Canadians viewed this as a hostile act to us, and there never was a legal determination, that it was contrary to our laws. In addition, now we are speaking of a formal agreement. I don't think their—

Senator HARTKE. I will guarantee there never was any determination. We tried to get the Treasury Department to act for 15 months, and they never did, and you finally came up with this agreement as a substitute.

Mr. TREZISE. There is a substantial body of legal opinion that the countervailing duty act did not apply.

Senator HARTKE. It has never been determined in the courts.

The whole question about it was, there was substantial detriment at least to these people in the United States, who thought it was a detri-

ment to them because they thought their jobs were being taken away from them as a result of unilateral action; isn't that true?

Mr. MANN. Senator, we don't dispute it is inimical to U.S. interests and something had to be done to remove it, and it has been removed by this agreement.

Senator HARTKE. I think that is a fair statement. Thank you, Mr. Mann.

Let us come back to section 273 again. Under 273, isn't it true that if this is followed that they have again the unilateral right to make any modifications in regard to what is termed "the net sales value" or the definition of the term "Canadian value added" which in effect are similar to the content?

Mr. MANN. Senator, if I may undertake to answer that, I think we should get an opinion from our Legal Adviser, which we will be glad to file for the record. Subject to that, I would say that all sovereign governments have the right to change all of their regulations up until the time they commit themselves in an international agreement or a treaty along a certain way. Then that treaty itself or agreement becomes a part of the law of the land. I do not think it is possible that the Canadian Government could alter the terms of this agreement simply because it is a sovereign state and has the right to change its own regulations.

If I understand the import of your question, that is it, and they contracted. They make a contract, they are bound by the contract, and they cannot alter the terms of this agreement in a unilateral way.

Senator HARTKE. I am not disputing that at the moment. But let me point out to you that what you have here, and this is why I wanted to bring up the history of it, was an action, as you have correctly stated, which was not necessarily in the best interests of our Government, to which we have tried to react without having a trade war on our hands; is that true?

Mr. MANN. I think that is substantially true.

Senator HARTKE. That is the background on which the whole situation has developed.

Mr. MANN. We did not like the remission of duty scheme. We thought it was harmful to our interests. We did protest.

Senator HARTKE. And you did not really want to put in counter-vailing duties; is that it?

Mr. MANN. We did not want to get into a trade war, as you say stroke and counterstroke.

Senator HARTKE. I think that is a fair assumption. That is exactly right.

Now we are presented with an agreement which refers to an annex which, in its terms, refers to some Canadian act, the Canadian Customs Act, section 273, which you say you want to receive a ruling on. But let me point out that the original clause gives them power to make such changes as they want to unilaterally. For example, under section (1) they could reduce the duty on any or all articles, whether natural products or products of manufacture. Section (m) prescribes the manner in which to proceed with penalties and forfeitures, how they shall be distributed, providing for the payment of awards, and so forth, a great variety of problems if you are following the section, and that is one thing. If you are going to put this legal opinion into the record,

I would hope you would have it for the committee before the time that the committee is asked to act upon this agreement. Could you do that?

Mr. MANN. Yes, sir.

(The document referred to follows:)

SEPTEMBER 17, 1965.

MEMORANDUM REGARDING POSSIBLE MODIFICATION BY THE CANADIAN GOVERNMENT OF CERTAIN DEFINITIONS INCORPORATED BY REFERENCE IN ANNEX A OF THE UNITED STATES-CANADIAN AUTOMOTIVE PRODUCTS AGREEMENT

A question has been raised as to the right of the Canadian Government during the life of the agreement concerning automotive products between the Government of the United States of America and the Government of Canada to modify certain definitions issued under section 273 of the Canadian Customs Act. The question arises because of subparagraphs 2(4) and 2(6) of annex A of the agreement. These subparagraphs state that "Canadian value added" and "net sales value" have "the meanings assigned by regulations made under section 273 of the Canadian Customs Act."

The agreement does not specifically limit the regulations that may be made by the Canadian Government under section 273 of the Canadian Customs Act. However, the regulations defining the terms in question appeared in Order in Council P.O. 1965-100, issued on January 16, 1965, the same day as signature of the agreement by President Johnson and Prime Minister Pearson. Thus, the "meanings" of these terms can be said to have been among the understandings which the two Governments relied on in entering into the agreement. Accordingly, while it is technically possible that the regulations may be changed, any substantive change in these meanings adversely affecting the interests of the United States as provided for in the agreement would be in violation of the agreement.

By making these terms subject to the regulatory authority of the Canadian Government, the agreement gives a certain amount of flexibility in defining terms of considerable technical complexity. It may be noted that the definition of "Canadian value added" in Order in Council P.O. 1965-100 is extremely lengthy and detailed. But the agreement itself contains the elements of the bargain within which such discretion as the respective national Governments have must be exercised.

The preamble of the agreement states that the parties are determined to strengthen their economic relations, and that they recognize this can best be achieved through economic growth and "the expansion of markets available to producers in both countries" by "the reduction or elimination of tariffs and all other barriers to trade" in the light of the important place that the automotive industry occupies in the two countries. Again, the final paragraph of article I of the agreement states that it "shall be the policy of each Government to avoid actions which would frustrate the achievement of these objectives."

CONCLUSION

A modification of the Canadian regulations under consideration which would have any substantial effect of interfering with the development and growth of trade between the two countries would be clearly inconsistent with the agreement.

It may be added that, under article IV, each Government is obligated to consult with the other on request with respect to any matter relating to the agreement, which certainly would include a modification of these regulations. In the unlikely event that the U.S. Government, in any such consultations, should be unable to dissuade the Canadian Government from making modifications in the regulations adversely affecting U.S. interests, the United States would have the unqualified right under article VII of the agreement to terminate it by giving 12 months written notice to the Canadian Government. In addition, section 204 of H.R. 9042 would authorize the President at any time to terminate, in whole or in part, any proclamation issued pursuant to section 201 or 202 of the proposed act.

LEONARD C. MEEKER,
The Legal Adviser,
Department of State.

Senator HARTKE. Let us go to another matter. Can a U.S. citizen buy an automobile in Canada at the present time, either now or under the agreement, and bring it back duty free? Can he at the present time without the agreement?

Mr. TREZISE. Yes.

Senator HARTKE. Bring it in duty free, a U.S. citizen? Can he go to Canada at the present time?

Mr. TREZISE. Since cars cost more in Canada, I think it is pretty hypothetical, Senator. I think the Customs Bureau had better respond to that.

Senator HARTKE. Let us get the Customs Bureau up here at the table, too, then.

I think for the sake of the record we will have you identify yourself. You just sit down.

Mr. BOYETT. Thank you. I am Fred Boyett, Assistant Deputy Commissioner. What was the question again, sir?

Senator HARTKE. Can a U.S. citizen go to Canada now and buy a Canadian automobile and bring it back to the United States duty free?

Mr. BOYETT. No, sir; he cannot.

Senator HARTKE. He cannot. All right. Can a Canadian citizen buy one in the United States and take it back to Canada with him duty free?

Mr. BOYETT. No, sir; he cannot do that.

Senator HARTKE. Let us come back to the first question. If this agreement is passed into law, then could a U.S. citizen buy an automobile in Canada and bring it back to the United States duty free?

Mr. BOYETT. Yes, sir; he could.

Senator HARTKE. All right. Then can a Canadian buy one here and take it back to Canada with him free of any duty?

Mr. BOYETT. No, sir; he could not.

Senator HARTKE. What is the difference?

Mr. BOYETT. The difference is that the agreement restricts the importations of the products from the United States to given manufacturers in Canada. There is no such restriction on our side.

Senator HARTKE. If this goes into law, what will this do to competition for sales to the U.S. citizens who live near the border? What will they do, what could they do?

Mr. BOYETT. Well, I would not think they would go into Canada to buy a car if the prices were 15 percent higher.

Senator HARTKE. I understand. But if they are higher—but I think the Secretary of Commerce says this is not going to occur very long. Is that correct, Mr. Secretary?

Secretary CONNOR. No, sir. I made no prediction as to how long the price disparity would last. I said over the long run that the elimination of these production differences would result in lower prices, but I made no prediction as to the time.

Senator HARTKE. This is what is really anticipated, Mr. Secretary?

Secretary CONNOR. It is one of the objectives, yes, sir, that there would be the most economic pattern of investment, production, and trade. That is one of the objectives of the agreement.

Senator HARTKE. One of the ideas is that there will be certain models, is it not, that will be produced in Canada that may be possibly cheaper; isn't that true?

Secretary CONNOR. I think Senator Hartke, that could reasonably be expected, but it would depend upon the plans of each U.S. manufacturer and its Canadian subsidiary.

Senator HARTKE. Well, if this really occurs in certain models, then what do you think is going to happen in regard to a man who lives close to that border? Couldn't he go over there and buy a car cheaper and bring it back to the United States duty free, and that same privilege is not accorded in reverse?

Secretary CONNOR. I think you could expect him to consider the price aspect, among others.

Senator HARTKE. And the truth of it is that a U.S. citizen could do this, but the Canadian could not come down here and buy from our American-made products, isn't that true, duty free? Isn't that true now?

Secretary CONNOR. Well, that is the present situation. As we stated, as we indicated, Senator Hartke—

Senator HARTKE. That is not the present situation, but the situation under the agreement.

Secretary CONNOR. Under the proposed agreement.

Senator HARTKE. That is right.

Secretary CONNOR. And there are many matters involved that are subject to review as this goes along, and amendments to the agreement can be worked out.

Senator HARTKE. Did our negotiators whenever this went into effect, insist on symmetrical treatment on both sides of the border in this regard?

Mr. TREZISE. We understood, Senator, the Canadians had this arrangement in mind to protect their position in the vehicle assembly end of the business.

I would like to point out that the same automobiles, and if the prices come down in Canada, they will get the same price, not a different price from an American manufacturer.

Senator HARTKE. You want to go off into some other things. I want to stay with the agreement we are talking about. We are not going to go back and change this agreement according to what happens in terms of costs. If what the Secretary of Commerce has indicated is true, what they hope to do is to bring the prices down.

Mr. TREZISE. To the U.S. level.

Senator HARTKE. Well, in some cases below that.

Mr. TREZISE. They are the identical cars, Senator. They are not different cars. They are the same Pontiac, the same Ford.

Senator HARTKE. They are not the same costs. They are not assembled in the same manner, they are assembled by different people. If they were the same costs—

Mr. TREZISE. Parts.

Senator HARTKE. We have a 10-percent differential in cost now; isn't that true?

Mr. TREZISE. But I thought your question was, assuming their price had come down. I said it would come down to the U.S. cost and not below.

Senator HARTKE. I am not making these assumptions, I didn't make any assumptions. You people are making them. There are about four different departments making the assumptions, and I am trying

to keep them in the same line and trying to keep them in balance. I would like to see our Government go down one track if we can.

It is assumed that this is going to be the ultimate effect, according to the Secretary of Commerce, although he did not predict it. Is that a fair statement, Mr. Secretary?

Secretary CONNOR. Yes, sir; I think that is.

Senator HARTKE. What I am trying to find out is, did our negotiators at the time insist on symmetrical treatment on both sides of the border? Was it discussed?

Mr. McNEILL. Yes.

Senator HARTKE. You are an anxious witness. Go right ahead.

Mr. McNEILL. Yes; it was discussed, sir.

Senator HARTKE. All right.

Mr. McNEILL. But the U.S. negotiators were not successful in having symmetry with respect to the citizens on both sides of the border being able to buy each other's cars.

Senator HARTKE. What concession did we get in return for this departure from so-called symmetrical treatment?

Mr. McNEILL. I do not know, sir, in the variety of considerations involved that we can point to any one. I will say from the Canadian's perspective, if their citizens were allowed to buy cars in the United States, there would be no purpose for the agreement because that would submerge pretty quickly and deeply any automobile industry that they at the time had in Canada because of the price disparities.

Senator HARTKE. What you have to say in regard to this lack of symmetrical treatment is we got nothing, we lost, is that true? No matter what you want to say, when you are looking at it from the Canadian side or if you want to take their viewpoint, they can come to the United States and buy automobiles cheaper, and you do not want them to do that. You say that is the purpose of the agreement. Forgetting all that, the truth of it is we got nothing out of the agreement. You said we discussed it, and it was a matter for negotiation in which you could not prevail.

Mr. McNEILL. Sir, we discussed a variety of other matters, and to pinpoint each one and ask what we got or lost on each one of those is very difficult to do, if not impossible.

What the United States got from this agreement was to the benefit of the American people and the American industry. We got the preservation of U.S. trade.

Senator HARTKE. This is a matter which this committee is going to have to ultimately decide. But what I come back to is, as far as this portion of the agreement is concerned, you said it was discussed, it was negotiated, and we lost.

Mr. McNEILL. It was discussed, but this particular point was not negotiated, sir.

Senator HARTKE. All right. But we got nothing then, isn't that fair now?

Mr. McNEILL. Well, sir, I think it fairer to put it in a little different perspective, and that is, the recognition on the part of the U.S. Government that the Canadian Government could not allow its citizens immediately to import cars duty free from the United States without any limitations.

Senator HARTKE. I think what you are really saying is, back before one of these individuals stated before, that this is not free trade in a common sense, is it?

Mr. McNEILL. It is a move toward freer trade.

Senator HARTKE. Well, that is your definition. But it is not free trade in a common sense. In other words, there are certain liabilities and certain inabilities which are created that prevent it from being free trade.

Mr. McNEILL. This is not, sir, unrestricted free trade.

Senator HARTKE. Yes.

As far as the consumer in Canada is concerned, if he had absolutely free trade he could come here and buy cheaper, is that right?

Mr. McNEILL. Yes, sir.

Senator HARTKE. Now, is there a difference between auto manufacturers qualifying for free importation into Canada, on the one hand, and into the United States, on the other?

Mr. McNEILL. I think there is, sir; yes.

Senator HARTKE. There is a list of companies that the Canadians have qualified, is that right?

Mr. McNEILL. Yes.

Senator HARTKE. Do we have a list of those in this country which could import parts duty free?

Mr. McNEILL. In this country, sir?

Senator HARTKE. Yes.

Mr. McNEILL. Any U.S. citizen can import parts from Canada that are destined for original equipment duty free into this country. All that he has to do is to show he has a contract from an assembler of automobiles into which the part is to be incorporated. It is completely open to any U.S. citizen.

Senator HARTKE. All right. But there is a limit, isn't there, to the qualifying industries on the Canadian side; isn't that true?

Mr. McNEILL. No, sir. Any qualified assembler of a vehicle in Canada or any manufacturer of parts or any other person in Canada can import parts duty free into Canada when they are for use as original equipment.

Senator HARTKE. Why did they list the Canadian companies which are qualified then and not list the American?

Mr. McNEILL. They listed the motor vehicle assemblers, Senator, not the parts manufacturers.

Senator HARTKE. So it is not just exactly the same, is it?

Mr. McNEILL. In respect of original equipment parts it is the same. Any one of those listed by the Canadian Government as an assembler of vehicles or any producer of parts in Canada has the right to import original equipment parts duty free into Canada. The same is true on this side of the border.

Senator HARTKE. Can Checker Cab import parts duty free into Canada?

Mr. McNEILL. They don't assemble in Canada so they have no need to do it.

Senator HARTKE. They cannot do it.

Mr. McNEILL. Checker Cab established in Canada a facility to assemble cars, and if Checker of Canada met the various provisions

in the annexes of this agreement, then Checker could import parts duty free into Canada.

Senator HARTKE. Can they send their cars up there duty free?

Mr. McNEILL. I beg your pardon?

Senator HARTKE. Can they send their cars up there duty free?

Secretary CONNOR. They would have to comply with the terms established by the Canadian Government.

Senator HARTKE. That is right.

Secretary CONNOR. In order to be able to do that.

Mr. McNEILL. Checker Cab, sir, could sell its cars duty free into Canada through a third person.

Senator HARTKE. Through a third person, but not direct.

Mr. McNEILL. Yes.

Senator HARTKE. Why this difference then? Why was not symmetrical treatment handled here in regard to both countries?

Mr. McNEILL. Because in the case of Checker Cab there was no production in Canada.

Mr. MANN. Senator, if I can say one thing on this symmetrical treatment, the whole agreement rests on the economic realities which are that our automotive industry is much more efficient than the Canadian industry, and all of the provisions you are talking about are provisions which are designed to help an infant industry in a transitional period until such time as it is able to compete. This is really the answer to everything that we are talking about now.

If you assume that the Canadian industry was in a position to compete with ours and could survive in that kind of competition there would be no need for this type of agreement. It would be an entirely different type of agreement.

As you say, pure free trade in automobiles, without any restrictions whatsoever, would exist. All of the restrictions are designed to enable them in a transitional period to achieve these efficiencies and reductions.

Senator HARTKE. All right. In other words, you are saying that you are willing to concede there was no real insistence on symmetrical treatment.

Mr. MANN. Not in point-by-point detail. If we made an agreement with Mexico with regard to the Mexican automobile industry, and since there is no competition, since their cars cost 30, 40 percent more than ours, their industry would disappear if there were no agreement. This is not only true of automobiles but in all industry in the developing part of the world. This is one of the facts of life in international trade today. It is not limited to this industry or to this country.

Senator HARTKE. What you are saying is, in substance, and I just want to have confirmation, that having symmetrical treatment of the two industries was not in consideration here; is that right?

Mr. MANN. I think we recognize that the Canadian industry was not in a position to compete, not as efficient as ours. It does not produce as cheaply as our industry does, and that, therefore, there had to be, as the Canadian ministers have said in the statements read by Secretary Connor, there had to be a transitional period, and we tried to work out an agreement which, on balance, would be good for both

countries and which would result in larger production, larger employment of people, and more trade. This is what is forecast.

Secretary CONNOR. Senator Hartke, just so there is no misunderstanding, there is symmetry so long as the parts are moving across the borders for incorporation in new automobiles. Now, if the parts are replacement parts, there is symmetry in the sense that the applicable tariff rates still apply.

Senator SMATHERS. Mr. Chairman, I wonder if I might interrupt to ask the distinguished Senator from Indiana and the distinguished chairman what the plans are with respect to concluding the questioning of these Cabinet officials?

Senator HARTKE. Senator Gore, I know, has some questions, and he is not here.

The CHAIRMAN. I received a letter from Senator Gore explaining his absence today and he did not request that the Government witness be held over for his benefit. We have been in session practically 3 hours, I will say to the Senator from Indiana, and there are a number of witnesses yet to be heard this afternoon. They are from out of town and have been waiting 2 days to testify.

Senator HARTKE. Mr. Chairman, I have been here all day.

The CHAIRMAN. It looks like there should be some way for them to be heard.

Senator HARTKE. I would be willing. If you wish to interrupt these witnesses and bring them back, that will be all right with me. I will be glad to accommodate my friend, the president of General Motors, who I know has an appointment with a wonderful firm, with Allison's, with an employment roll of about 18,000. I don't want to see them go to Canada.

Senator SMATHERS. Can I suggest that the distinguished Senator from Indiana prepare what questions he would like to ask and submit them to these—

Senator HARTKE. Mr. Chairman, I am not interested in that. I think this is a public hearing and I think the public is entitled to hear these questions.

Senator SMATHERS. Would the Senator not agree there is no point in having three of these people sit here all at one time when obviously they have a great deal to do? Could the Senator not finish at least his preliminary questioning and then let us get on with the questioning of the president of the General Motors or whoever is representing Chrysler?

Senator HARTKE. If you want to interrupt right now, I did not request them to come and sit as a panel. This was not my decision. They came, and the only one I have added to help out here was the customs man, and so far as I am concerned I am agreeable to whatever the Chair wants to do. I just don't want these matters to go unanswered, and I know that there are quite a few matters yet here which should be answered, I think, for the clarification of this agreement.

The CHAIRMAN. The Chair would like to hear the balance of today's witnesses at 2:30, so they can return to their home cities.

Senator HARTKE. That is perfectly agreeable with me, sir.

I will be glad to postpone them to a later date, Mr. Chairman, if that is the pleasure of the chairman. But I do not want to waive any rights that I have to question these people.

Senator SMATHERS. Would the Senator yield that I might ask him this question? Would he be agreeable to having one of these people at a time, plus their staff?

Senator HARTKE. That would be fine.

Mr. Chairman, I just happen to be low in seniority, and I am the last man to ask the questions. I can't help it. I did not interrupt the Senator from Florida or anyone else, and I didn't even interrupt a single question this morning although I had some I would have liked to submit. I would like to continue the questioning.

Senator SMATHERS. I would like to say that I only took a total of 10 minutes. I don't mind the Senator ever interrupting me because he always gives me guidance and assistance all the time. [Laughter.]

But if we could resolve this problem on Friday, who would you like to have back Friday?

Senator HARTKE. I will not be here Friday. I did not know we had scheduled meetings for Friday. This is the first I heard we had meetings scheduled for Friday.

Senator SMATHERS. Which one do you want back Monday?

Senator HARTKE. This is at the pleasure of the chairman whenever you want to start. If you want to start with the Secretary of Labor—I do have several questions I would like to ask on this adjustment assistance system. As the Secretary of Labor well knows my questions certainly go beyond this because I have a bill pending dealing with the whole adjustment provision of the Trade Expansion Act which a portion of which is basically written into this law in different words. I think the Secretary of Labor understands that and, I would like to go into that matter.

Senator SMATHERS. Would it be satisfactory to you if the chairman invited the Secretary of Labor to come back Monday at 10 o'clock?

Senator HARTKE. That is perfectly all right with me. I do not know what the schedule of the Secretary is.

Secretary WITZ. It has already been destroyed. I would be perfectly willing to do it right now if it would expedite the matter, but I appreciate the consideration. I would, at the same time, go right ahead with the questioning.

Senator HARTKE. I want to say that I have a meeting going since 12:30 with people waiting for me. I have not been complaining. I have become accustomed to the ways of Washington, and these people have now been waiting 25 minutes, and I have made no complaint whatsoever to the chairman. I would be willing to stay and forget my meeting with these people. Some are from out of town and some are quite prominent in Washington, some New York.

Senator SMATHERS. How long would it take you with the Secretary of Labor?

Senator HARTKE. I have no idea.

Senator SMATHERS. Would you limit it to 30 minutes?

Senator HARTKE. I think this matter is of sufficient importance so that I would like to have no time limit.

The CHAIRMAN. The Senator knows, he has been on this committee with me for many years, I have always been in favor of giving full opportunity for the witnesses to be heard, and discussion on the part of the membership of the committee.

Senator HARTKE. I do not think I have taken very long, Mr. Chairman. I have been on 15 minutes at first and now 25, so I have taken a total of 35 minutes, for a matter in which you have four departments now represented here which, if you divide it among the departments, averages out less than 10 minutes each on an agreement between two countries. I just do not want to feel that I have to be embarrassed publicly because other people took time to ask questions. I did not ask all these witnesses to appear at once. It was not my request.

The CHAIRMAN. I certainly do not intend to embarrass the Senator publicly or any other way.

Senator SMATHERS. Nor do I. I am just merely trying to see where we can go.

Senator HARTKE. Mr. Chairman, I am perfectly willing to come back. I cannot, due to commitments, be here Friday. I will be here Monday. The National Metropolitan Opera is opening its road show in Indianapolis, Monday. I would be willing to cancel that. It is quite an important event. We are having all the Washington people come out, but I will stay in whatever manner the chairman wants to call the witnesses.

I do think in due deference to some of the people who are scheduled this afternoon if we could hear them this afternoon they should be heard this afternoon.

The CHAIRMAN. The Senator will agree, then.

Senator HARTKE. That is fine.

The CHAIRMAN. The committee will recess until 2:30. The Government witnesses will yield to the out-of-town industry witnesses. The committee will then decide what we can do about recalling the Government witnesses for further questioning.

(Whereupon, at 1 p.m. the committee adjourned to reconvene at 2:30 p.m. of the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order.

The Chair places in the record a report on the bill from Ambassador William M. Roth, acting special representative for trade negotiations. (The report referred to follows:)

OFFICE OF THE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS,
EXECUTIVE OFFICE OF THE PRESIDENT,
Washington, September 14, 1965.

HON. HARRY F. BYRD,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Thank you for your note of September 2, 1965, in which you request a report on H.R. 9042, the Automotive Products Trade Act of 1965.

This Office supports this bill and believes that it provides a reasonable solution to a very difficult problem which existed in our relations with Canada.

In particular, we believe that 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 the agreement as proposed in the bill 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. At the same time, the GATT makes provisions for waivers of obligations of contracting parties in "exceptional circumstances." We intend to seek such a waiver at the appropriate time and are hopeful that it will be approved by the other contracting parties.

The Bureau of the Budget has advised that there is no objection from the standpoint of the administration's program to the presentation of this report.

Sincerely yours,

WILLIAM M. ROTH,
Acting Special Representative.

The CHAIRMAN. The first witness is Mr. James M. Roche, president of the General Motors Corp.

Mr. Roche, will you make your statement? I am sorry you do not have a better audience. There will be more Senators in a few minutes.

Senator CARLSON. That works both ways, Mr. Roche.

STATEMENT OF JAMES M. ROCHE, PRESIDENT, GENERAL MOTORS CORP.

Mr. ROCHE. First I would like to express my appreciation to you, Mr. Chairman, for arranging the schedule so that I could testify this afternoon. As Senator Hartke explained, I have an appointment in Indianapolis tonight.

My name is James M. Roche. I am president of General Motors. At this time, I would like to read a brief summary of the statement filed with your committee. This statement is substantially the same as the statement made before the Committee on Ways and Means of the House of Representatives on April 28, 1965.

I will summarize briefly General Motors' position with regard to the agreement concerning automotive products between the Government of the United States and the Government of Canada and the proposed enabling legislation. General Motors had nothing to do with evolving either the prior remission plan, or this agreement, but we must respect its provisions and adjust our operations to comply with them. It is our belief that the automotive products agreement while not free of difficulties is, over a period of time, a workable plan.

This agreement assures the U.S. industry of continued participation in the faster growing Canadian market, and it would be most unfortunate if any action were taken which would result in Canada applying more restrictive measures to accomplish the objectives it seeks. There are several less desirable alternates available; for example, the Canadian Government could apply duty to many parts which have been imported into Canada duty free. Duty rates on dutiable items could be increased. The imposition of surcharges in addition to the prior statutory rate on imported vehicles is another avenue which the Canadian Government might choose to follow and there has been a precedent for this. Beyond any of these, the present Canadian content requirement of 60 percent could be increased to, say, 90 percent, as has been done in other countries.

The application of any or all of these alternates could be expected to greatly reduce or even eliminate the present volume of U.S. automotive exports to Canada. Some of these steps have been taken either individually or in combination by other countries in recent years—for example, Argentina, Australia, Brazil—with the result that U.S. automotive exports to these countries have been substantially reduced or virtually eliminated.

It is noted that in 1964, even with the effect of the automotive strikes in both countries, General Motors operations in Canada imported \$241 million in automotive parts and products from the United States, which contributed in the area of 17,000 jobs in the United States.

Growth prospects for the Canadian motor vehicle industry are considered better than for its U.S. counterpart. For one thing, with immigration a larger factor, the population of Canada is expected to grow faster than that of the United States. Starting from a lower base, personal income is expected to show a larger percentage increase. As Canadian incomes rise, more people will become car owners and more car owners will become two-car owners. Cars per 100 persons should increase from the present level of 26 in Canada much closer to the U.S. figure of 35. Canada now is scrapping cars at a rate of over 6 percent annually compared with a rate 5 years ago of about 5 percent. These rates compare with an American scrappage rate of 8½ percent, which rate Canada can be expected to approach eventually.

Weighing all of these factors, it is estimated that by 1970 annual vehicle sales in Canada should average 850,000 units, up 33 percent from the 1962-64 average of 641,000. By comparison, U.S. industry sales by 1970 are estimated to average more than 10 million units, an increase of over 14 percent from 1962 to 1964.

Giving consideration to the U.S. content which will remain in all Canadian vehicles as well as to the dynamic forces for expansion in this country, it is apparent that the U.S. industry will maintain as substantial growth pattern even after taking into account the increased Canadian content sought by the Canadian Government. By 1970 total output of the U.S. industry in terms of cost of production should reach an estimated \$17,500 million annually compared with an average annual figure of \$15,100 million for the past 3 years.

In order to comply with the provisions of this agreement, some integration of Canadian and United States automotive production will be required. This will require substantial investments in and realignment of manufacturing and assembly facilities. Until these facilities can be fully coordinated for maximum efficiency, Canadian costs will continue to be higher than those in the United States. Over the long term, as the North American market grows, and after existing and additional capacity coordination and utilization is achieved, the economies of both the United States and Canada should benefit.

At this time, may I refer to a letter which I wrote to the Commissioner of Customs on June 19, 1964, in response to a request in the Federal Register for comments of interested persons. The final paragraph read as follows:

The development and growth of the automotive industry over the years in both the United States and Canada has proven beneficial to both countries. The export of U.S.-made parts for * * * Canadian production of automobile, trucks, and motor coaches has provided significant employment in the United States. The automotive industry, in turn, contributes importantly to the Canadian economy. Any measures applied by either country which might disturb the present level of business or anticipated growth of the automotive industry could adversely affect the advantages which both countries currently enjoy.

Finally, let me say that General Motors operates plants and does business in many parts of the world. The conditions under which we operate and the laws governing our operations vary from country to country. In each country, however, we endeavor scrupulously to observe to the letter, the laws, local regulations, and customs of that particular country. We work to carry out our obligations as a manufacturer in a way that will be beneficial to our customers, to the economy of the United States, to the economy of the country itself, and to General Motors.

In the present instance, we see an obligation as a corporate citizen both of the United States and of Canada to attempt to accomplish the objectives of this agreement, which was freely negotiated by the two Governments and freely entered into in the belief that it was in the best interests of both countries. We are confident of our ability to operate under the agreement and to continue to make our contribution to the economies of both the United States and Canada.

In connection with this belief, we, of course, support the proposed legislation.

The CHAIRMAN. Thank you very much, Mr. Roche. I assume you want your statement put in the record.

Mr. ROCHE. Yes, we would like to have the full statement included as a part of the record, Mr. Chairman.

The CHAIRMAN. Without objection the full statement will be inserted in the record.

(Mr. Roche's statement in full is as follows:)

STATEMENT BY JAMES M. ROCHE, PRESIDENT, GENERAL MOTORS CORP.

SUMMARY OF GENERAL MOTORS STATEMENT ON UNITED STATES-CANADIAN AUTOMOTIVE PRODUCTS AGREEMENT

I. Introduction.

II. General Motors background: General Motors' volume cars and trucks are built in Canada, along with many parts and components. The Canadian subsidiaries import other parts and components from General Motors plants and other suppliers in the United States. Production in Canada totaled 203,000 units in 1964.

III. Canadian automotive industry background: By 1970 Canadian automotive sales are expected to grow by 33 percent over the 1962-64 average compared with a growth of about half this rate for the United States. General Motors is expanding in anticipation of this growth. U.S. production will benefit.

Because of its smaller size the Canadian industry has always been protected by tariffs, etc., and has not been able to specialize its production facilities. The result has been higher costs and prices.

How the United States industry benefits from the Canadian market is indicated by the fact that in 1964 General Motors' Canadian subsidiaries imported \$241 million of automotive components and product.

IV. The current problem: In recent years Canada has had an unfavorable current account balance originating in United States-Canadian trade and particularly in the automotive sector. The transmission duty remission plan was introduced in November 1962, and broadened a year later to cover all imported vehicles and most parts and accessories. General Motors was able to accommodate its operations to these changes.

V. The General Motors position: The General Motors position was set forth in a June 19, 1964, letter to the Commissioner of Customs. It made these points: (1) That the growth of the Canadian industry was beneficial to both countries; (2) that U.S. participation through exports has helped both countries; (3) that the value of exports has been substantial, and in 1963 those of General Motors alone accounted for some 16,000 jobs; (4) that the Canadian practice of permitting certain duty-free imports was beneficial to both countries; (5) that the remission plan was a constructive measure from the standpoint of both coun-

tries; (6) that U.S. exports could have been expected to continue to increase under the plan; (7) that Canada could take steps that would be much more disadvantageous to the United States industry.

VI. The automotive trade agreement: The proposed trade agreement, while not free of difficulties, is a workable plan. It assures the United States industry of continued participation in the Canadian market. Over the long term the economies of both countries should benefit.

VII. Conclusion: Any restrictions on the automotive industry could adversely affect both the United States and Canada. General Motors has an obligation to accomplish the objectives of the trade agreement and is confident of its ability to continue to make a contribution to the economies of both countries.

I. INTRODUCTION

My name is James M. Roche. I am president of General Motors. My address is 425 Duneton Road, Bloomfield Hills, Mich. The information I am about to present on behalf of General Motors is substantially the same as that contained in my statement before the Committee on Ways and Means of the House of Representatives on April 28, 1965. At that time, I was an executive vice president with jurisdiction over 15 manufacturing divisions, including our Canadian operations.

II. GENERAL MOTORS BACKGROUND

1. Origin of GM of Canada

General Motors of Canada was formerly the McLaughlin Carriage Co., whose president, R. S. McLaughlin, signed an agreement with William O. Durant in 1907, the year before General Motors was organized, to obtain Buick engines for the McLaughlin car. Mr. McLaughlin became a director of General Motors in 1910 and president of GM of Canada in 1918 when that company was formed. He is now chairman of the board of GM of Canada and is still active as a director of General Motors Corp.

2. Products made by GM Canadian operations

General Motors of Canada builds Chevrolet, Corvair, Pontiac, Oldsmobile, and Buick passenger cars and Chevrolet and GMC trucks at its Oshawa plants not far from Toronto. It also manufactures certain components and subassemblies used in the final assembly of both cars and trucks.

McKinnon Industries, with plants in St. Catharines and Windsor, Ontario, manufactures a variety of parts and components for GM of Canada and also for other vehicle manufacturers. They range from engines and transmissions to spark plugs and ball bearings.

Automotive parts as well as Frigidaire products are produced at the Frigidaire plant in Scarborough, Ontario.

GM Diesel, Ltd., assembles buses and locomotives at its plant in London, Ontario.

3. Relationship between GM's Canadian and U.S. operations

Almost all of the products and parts produced by these Canadian subsidiaries are similar to items made in GM's U.S. plants.

All of the Canadian subsidiaries import additional components and service parts from GM plants in the United States and from non-GM suppliers in this country as well. For the most part these are items that cannot be produced economically in low volume, and in many cases their entry into Canada is permitted duty free.

In 1964 such imports into Canada from GM plants in the United States included items like metal stampings for bodies and floor panels, transmission assemblies, engines and components, body hardware, instrument clusters, electrical equipment, and carburetor and steering assemblies. The total value of such 1964 imports was \$178 million.

4. Imports into Canada from other U.S. suppliers

Imports into Canada from other suppliers in the United States amounted to almost \$46 million in 1964. Three-quarters of these imports came from 180 major suppliers and include such items as cold-rolled sheet steel, frames, stampings, rubber parts, heavy-duty axles and transmissions, carburetors, castings and forgings, bumpers, mufflers, and brakes and brake parts.

5. Purchases from Canadian suppliers

GM's Canadian subsidiaries also purchase a substantial volume of components and parts from independent Canadian suppliers and in 1964 these purchases approximated \$188 million. Upholstery fabrics and carpets, small stampings, hubs, brakedrums, paint, die castings, tires, seat springs, glass, wheels, axles, propeller shafts, pistons, valves, and headlamps are typical items in this category.

6. Imports of finished vehicles into Canada

Turning from components to finished products, GM of Canada and GM Diesel, Ltd., import vehicles of types not made in Canada from GM divisions in the United States. These are low demand vehicles—chiefly Cadillacs and the larger Buicks and Oldsmobiles, plus a few Pontiacs, Chevrolets, trucks, and buses. All told, 6,000 vehicles were imported from the United States in 1964.

7. Unit sales of GM of Canada

Sales of cars and trucks by General Motors of Canada have grown substantially over the years, reaching 100,000 units in 1928, 200,000 in 1953, and 300,000 in 1963. Last year sales were held to 293,000 units as a result of strikes in this country and in Canada which seriously affected production in the fourth quarter. During the rest of the year GM of Canada and McKinnon, as well, I believe, as most of their suppliers, operated at capacity, as they did during 1963.

III. CANADIAN AUTOMOTIVE INDUSTRY BACKGROUND

1. Growth prospects of Canadian industry

Growth prospects for the Canadian motor vehicle industry are considered better than for its U.S. counterpart. For one thing, with immigration a larger factor, the population of Canada is expected to grow faster than that of the United States. Starting from a lower base, personal income is expected to show a larger percentage increase. As Canadian incomes rise, more people will become car owners and more car owners will become two-car owners. Cars per 100 persons should increase from the present level of 26 in Canada much closer to the U.S. figure of 35. Canada now is scrapping cars at a rate of over 6 percent annually compared with a rate 5 years ago of about 5 percent. These rates compare with an American scrappage rate (which Canada can be expected to approach eventually) of 8½ percent.

Weighing all of these factors, it is estimated that by 1970 annual vehicle sales in Canada should average 850,000 units, up 83 percent from the 1962-64 average of 641,000. By comparison, U.S. industry sales by 1970 are estimated to average more than 10 million units, an increase of over 14 percent from 1962-64.

2. GM expansion program in Canada

To meet anticipated future demand the Canadian automotive industry is expanding its facilities. General Motors of Canada, for example, has built an assembly plant near Montreal and a truck chassis plant in Oshawa, while McKinnon is expanding its facilities at St. Catharines. GM of Canada has also built a "soft trim" plant in Windsor, and this plant will temporarily have some excess capacity which will be used to balance out GM trim requirements in other areas. Overall, however, these new facilities are designed to help keep pace with the future growth of the Canadian motor vehicle market.

3. Benefits of expansion program to United States

It should also be emphasized that U.S. production will benefit too from the growth of the Canadian motor vehicle market because Canadian vehicles will continue to contain a substantial number of parts made in the United States. Furthermore, as the Canadian motor vehicle market grows, the entire Canadian economy will benefit, and this will be a stimulus to other export industries in the United States.

4. How Canadian automotive market differs from United States

The Canadian motor vehicle market has always differed from the U.S. market in a number of respects, most of them stemming from the difference in size. The large demand for cars and trucks in the United States has made it possible for domestic motor vehicle manufacturers to use mass-production techniques and achieve economies of scale. As a result, the industry has never sought tariff or other forms of protection.

5. Effect on Canadian production

Of necessity because of proximity to its U.S. counterpart, the Canadian industry has always been protected by tariffs, by content requirements, or by other means. Because the market was relatively small, mass-production methods could not be used to the extent possible in the United States, and a single plant often has had to produce or assemble a great variety of models, parts, or components.

6. Examples of production diversification

To cite one example, GM of Canada's Oshawa plant assembled in the 1965 model year a total of 595 different passenger car and truck models. By contrast, the most complex assembly operation in the United States has to turn out only 256 models, less than half the Oshawa total. The Canadian operation is further complicated by the fact that customers there have substantially the same choices of colors and trim, equipment, and accessory options as do those in the United States.

Machining and stamping operations also are not the same in Canada as in the United States. Long production runs are not possible and frequent tooling changes are necessary. In the United States a single stamping press may turn out the same fenders day after day over an entire model year. In Canada a similar press may run 5 days stamping out Chevrolet right fenders, then be down for 36 man-hours to change dies, then run 5 days on left fenders, then shift to a run of Pontiac fenders, and so on.

7. Economic result

All this means that costs are higher in Canada and prices higher as a result. Cars are kept in service longer in Canada than in the United States, and it costs more to buy a used car.

8. Benefits of tariff exemptions to Canadian consumer

On the other hand, Canada's longstanding policy of exempting from duty imported parts and components not capable of being made in Canada except at prohibitive cost has benefited the Canadian consumer as well as the U.S. industry. To what extent may be indicated by the fact that in 1964 about 48 percent of the \$210 million of components and service parts imported from the United States were admitted duty free.

The Canadian consumer has always been subjected to the same advertising and promotional stimuli from newspapers, magazines, television, and radio as has the U.S. consumer. These stimuli have created in him a desire for the same range and variety of models and options as has his counterpart in the United States. The policy of exempting from duty almost half of the components imported from this country, together with the policy of permitting dutiable importation of low-volume U.S. models not made in Canada, has made it possible for him to enjoy this range and variety of product.

The enjoyment has come at a price, however, as I pointed out a moment ago. Passenger cars and trucks cost more in Canada than they do in the United States.

9. Benefits to United States of Canadian export business

As I indicated earlier, U.S. industry—and U.S. workers as a result—have had the benefit of a substantial Canadian export business, Canada having always been by far our best automotive export customer. I have already cited the components and service parts imported by our Canadian subsidiaries and would only add at this point that in 1964 the total of such imports into Canada plus vehicles was \$241 million. Of this total, \$46 million represented imports from U.S. suppliers which are not GM divisions.

IV. THE CURRENT PROBLEM

1. Changed Canadian merchandise trade picture

It seems clear that the Canadian automotive production system has benefited both Canada and the United States. The United States continues to benefit directly to its merchandise trade account, but for Canada the economic picture has changed in recent years.

At one time Canada was second only to the United States as an exporter of motor vehicles. Even up until 1949 she was a net exporter of vehicles, and up until 1950 she was able to more than pay for her imports of vehicles and

vehicle parts by her exports of grain, minerals, lumber, woodpulp, and other products.

While the 1950's brought increasing prosperity to the Canadian economy and there was a substantial increase in purchases of new cars, Canada's balance of current account transactions took an unfavorable turn. Imports into Canada increased generally, but particularly automotive imports, so that the adverse current account balance for automotive products rose from \$133 million in 1949 (before Korea) to \$242 million in 1954, to \$505 million in 1959. As in the United States, there was a large influx of smaller European cars.

2. Effect of automotive trade deficit on Canadian current account balances

At the same time, exports from Canada were declining, with the result that total Canadian current account transactions showed an unfavorable balance in every year except 1952. For the 4 years, 1950-59 the annual deficit averaged \$1,364 million. This deficit originated in United States-Canadian trade, Canada's balance with the rest of the world having been favorable in every year except 1950.

Most significantly, the automotive trade deficit for the years 1954 through 1959 amounted to 28.5 percent of the unfavorable balance with the United States and was equal to 32.4 percent of the entire trade deficit. Thus, it cannot be considered unnatural for Canada to have looked to the automobile industry when studying ways to improve its overall trade position, particularly in view of the fact that, whereas Canadian automotive consumption in 1959 represented about 7 percent of the North American market, Canadian production, measured by content, accounted for only about 4 percent of North American output. I might add that these ratios have not changed materially since then.

3. Canadian moves to solve the problem

(a) *The Bladen report.*—On August 2, 1960, an Order in Council created a Royal Commission consisting of one member, Dr. V. W. Bladen, "to inquire into and report upon the situation of and prospects for the industries in Canada producing motor vehicles and parts therefor." The Bladen report was completed in April 1961. Its recommendations, generally speaking, were aimed at bringing about a closer integration of the North American automotive industry on the theory that Canada would eventually benefit from an increase in the percentage of components and parts made there. One specific recommendation was abandonment of the excise tax, and this was repealed on June 20, 1961. None of the other recommendations by Dr. Bladen were adopted, but the report, focusing attention as it did on conditions in the motor vehicle industry, may be considered to have been the genesis of a number of other subsequent developments.

(b) *Duty remission on automatic transmissions.*—In November 1962, the Canadian Government took a step toward reducing the automotive trade imbalance by failing to issue its heretofore annual order in Council exempting automatic transmissions from a duty of 25 percent. At the same time an order in Council provided that this 25-percent duty could be recovered by a manufacturer to the extent that he increased certain automotive exports over a base period fixed as November 1, 1961, through October 31, 1962. For each dollar of Canadian content of these increased exports, he would be permitted to import \$1 worth of automatic transmissions duty free.

(c) *Duty remission program broadened.*—On November 1, 1963, a new Order in Council extended the duty remission program to all imported automotive vehicles and most of the parts and accessories used in the production of vehicles in Canada. Remission was based, as in the case of transmissions, on increased exports of Canadian content over the same base period—the 12 months ending October 31, 1962.

4. Effect on General Motors

General Motors was able to accommodate its operations to these changes. At the time of the duty change on automatic transmissions, General Motors' automatic transmission facilities in the United States had been having difficulty keeping pace with demand. It was decided, therefore, to start assembly of automatic transmissions at McKinnon's Windsor plant. Production of some components was also begun at Windsor with the remainder being furnished from the United States. Beyond this, both McKinnon and GM of Canada were able to increase their overseas exports, particularly of vehicles to Commonwealth countries. Component exports to GM plants in the United States, incidentally, were not increased but have stayed below \$1 million in every post-

war year except in those when normal U.S. supply lines have been disrupted by strikes or other causes. Normally, these component exports from Canada consist of low volume items, one example being right-hand drive instrument panels which are not in demand in this country.

5. Discussions by two governments

No objections were raised to remission of duties until May 1964—19 months after the transmission plan and 7 months after the broad plan became operative. Then, a U.S. parts manufacturer supplying one of the U.S. vehicle producers lodged a protest with the Treasury Department and asked that countervailing duties be imposed on Canadian automotive parts that were being shipped to the United States.

Since then, we understand, numerous meetings of representatives of the United States and Canadian Governments have been held for the purpose of finding a solution to Canada's trade deficit problem that would not result in a tariff war or in steps that would be detrimental to the interests of either country. In addition, representatives of the State, Treasury, and Commerce Departments have from time to time asked General Motors for factual information and sought its views on various aspects of the problem. Similar requests to GM of Canada have come from officials in Canada. In both this country and in Canada, GM executives have cooperated at all times in answering these requests.

General Motors' representatives have provided factual information and comments as requested but we have not initiated any suggestions.

V. THE GENERAL MOTORS POSITION

At this point I would like to put in the record a letter which I wrote to the Commissioner of Customs on June 19, 1964, in response to a request in the Federal Register for comments of interested persons. I shall not attempt to read the entire letter but believe it would be helpful to summarize it and quote certain paragraphs.

In this letter I made these points:

1. Growth of Canadian industry beneficial to both countries

We are mindful of the half-century history of the North American automotive industry and of the growth of the Canadian sector to the point that the vehicles it produces now average 60 percent Canadian content. This growth has been beneficial to the economy, not alone of Canada, but of the United States as well.

2. U.S. participation has helped both countries

U.S. plants have found it economically sound to supply parts and components to both United States and Canadian car operations. As U.S. manufacturing performance has improved, both the United States and Canada have shared in the benefits. Furthermore, as Canadian volume has increased, so has production in the United States and, along with it, employment.

3. Value of exports to Canada

In 1963, for example, exports of automotive parts and finished vehicles from the United States to our Canadian automotive subsidiaries exceeded \$219 million. Of this total \$176 million represents exports from GM divisions in the United States and \$43 million represents exports from other U.S. based suppliers. Exports of \$176 represent about 31 percent of GM's product exports from the United States. They also represent, directly and indirectly, in the area of 16,000 jobs.

4. Duty-free imports into Canada

We consider it significant from the standpoint of our economy that the Canadian Government permitted GM of Canada to bring in duty free about \$85 million of the \$219 million of automotive products it imported from the United States. These parts were "of a class or kind not made in Canada," and their importation duty free was contingent on GM of Canada's having at least 60 percent Canadian content in the passenger cars and 50-percent content in the trucks it builds. This duty-free provision helped keep down the price of Canadian vehicles, thus increasing Canadian volume and hence the demand for U.S. exports.

5. Importance of remission plan

As automotive production expanded on the North American Continent, it seemed reasonable for Canada to wish to participate more fully in this growth. The remission plan made it possible for the Canadian producer to be more competitive in world markets, and, in the opinion of the Canadian Government, was (and I now quote) "a constructive measure from the point of view of the automotive industry in Canada and the United States since it makes possible greater trade and economies of production in both countries."

6. U.S. exports expected to rise under plan

It permitted Canadian participation in a portion of the overall growth of the industry without reducing the absolute level of exports from the United States to Canada. In fact, in our view, United States exports to Canada could have been expected to continue to increase.

7. Danger of more restrictive measures

In my letter to the Commissioner of Customs last June, I expressed the opinion that—and I again quote: "It would be most unfortunate if any action were taken which would result in Canada applying more restrictive measures to accomplish the objectives sought. There are several alternates available; for example, the Canadian Government could apply duty to many parts which are now imported into Canada 'duty free.' The imposition of surcharges in addition to the statutory duty rate on imported vehicles is another avenue which the Canadian Government might choose to follow and there has been a recent precedent for this. In other instances, duty rates on dutiable items could be increased over present levels. Beyond any of these, the present content of 60 percent could be increased to say 80 to 90 percent, as has been done in other countries. The application of any one or all of these alternates to the present situation could be expected to greatly reduce the present volume of United States automotive exports to Canada."

VI. THE AUTOMOTIVE TRADE AGREEMENT

1. Proposed solution is a "workable plan"

As it happened, the Canadian Government fortunately chose none of the courses referred to in my letter. In meetings with our own Government and with representatives of the industry, still another solution was proposed which is the subject of this hearing.

It is the belief of General Motors that the Automotive Products Agreement, while not free of difficulties, is over a period of time a workable plan. It was worked out by representatives of the two governments and freely entered into on both sides.

While General Motors must respect its provisions, we had nothing to do with evolving either it or the remission plan. In fact, we had found the original arrangements with respect to content and duties quite satisfactory and had no reason to want a change. It was our belief that any problems could have been worked out satisfactorily over a period of years.

The changes that have occurred were brought about by the desire of the Canadian Government, beginning with the Bladen Report in 1961, to come closer to balancing its trade account by a greater participation in the North American motor vehicle market—a participation to which it felt its own demand for cars and trucks entitled it.

2. Effect of plan on U.S. industry growth pattern

I pointed out at the start of this statement that by 1970, as a result of normal growth forces, vehicle sales in Canada will reach an estimated annual average of 850,000 units compared with a 641,000 average for the past 3 years. In the United States, it is estimated sales will grow from an 8,770,000 average for the past 3 years to more than 10 million units by 1970.

(a) *Estimated 1970 U.S. output.*—Giving consideration to the United States content which will remain in all Canadian vehicles as well as to the dynamic forces for expansion in this country, it is apparent that the United States industry will maintain a substantial growth pattern even after taking into account the increased Canadian content sought by the Canadian Government. By 1970 total output of the U.S. industry in terms of cost of production should reach an estimated \$17,500 million annually compared with an average annual figure of \$15,100 million for the past 3 years.

(b) *Assures United States of continued participation in Canadian market.*—The new agreement assures the United States industry of continued participation in the faster growing Canadian market, a participation that might otherwise have been preempted by some other country or that could have been ended unilaterally by Canada through increased content requirements or by some other measure. As the Canadian motor vehicle industry prospers and grows, there will certainly be a fallout effect on other industries in Canada. This in turn can be of significant benefit to U.S. firms doing business with these industries.

(c) *Substantial investment required.*—The integration of Canadian and United States automotive production will require substantial investments in and realignment of manufacturing and assembly facilities. Until these facilities can be fully coordinated for maximum efficiency, Canadian costs will continue to be higher than those in the United States. Over the long term, as the North American market grows and full capacity utilization is achieved, the economies of both the United States and Canada should benefit.

VII. CONCLUSION

In concluding this statement, may I again quote from my letter of June 19 to the Commissioner of Customs. The final paragraph read as follows:

1. *Both countries benefit from automotive industry*

"The development and growth of the automotive industry over the years in both the United States and Canada has proven beneficial to both countries. The export of United States made parts for * * * Canadian production of automobiles, trucks, and motor coaches has provided significant employment in the United States. The automotive industry, in turn, contributes importantly to the Canadian economy. Any measures applied by either country which might disturb the present level of business or anticipated growth of the automotive industry could adversely affect the advantages which both countries currently enjoy."

2. *GM policy on carrying out obligations*

Finally, let me say that General Motors operates plants and does business in many parts of the world. The conditions under which we operate and the laws governing our operations vary from country to country. In each country, however, we endeavor scrupulously to observe to the letter the laws, local regulations, and customs of that particular country. We work to carry out our obligations as a manufacturer in a way that will be beneficial to our customers, to the economy of the country itself, to the economy of the United States and to General Motors.

3. *GM's obligations under automatic trade agreement*

In the present instance we see an obligation as a corporate citizen both of the United States and of Canada to attempt to accomplish the objectives of this agreement, which was freely negotiated by the two governments and freely entered into in the belief that it was in the best interests of both countries. We are confident of our ability to operate under the agreement and to continue to make our contribution to the economies of both the United States and Canada.

Thank you very much,

Senator CARLSON. Mr. Chairman, may I ask a question?

Mr. Roche, just one or two questions here. I notice in the beginning of your statement:

General Motors had nothing to do with evolving either the prior plan or this agreement.

Does that mean you did not initiate or help initiate this treaty?

Mr. ROCHE. That is exactly right. We had nothing to do with it. It was not done at our suggestion or at our request. As it was explained here this morning, the first step in this direction was initiated back on November 1, 1962, on the part of the Canadian Government, whereby a duty was imposed 25 percent, on automatic transmissions. That duty was imposed with about 2 days' notice upon the industry.

Subsequently, a year later, the plan was extended to include things other than the components that were made a part of the transmission plan. That plan continued in effect until this question was raised, and the question on the problem of perhaps countervailing duty was raised, and after that these negotiations were undertaken, as we understand it, between the United States Government and the Canadian Government in an attempt to resolve the problem.

Senator CARLSON. In other words, you were called in after the treaty negotiations had started between the United States and Canada, and I assume the negotiators or those representing the governments did discuss with you the possible effects of this treaty.

Mr. ROCHE. Yes, Senator, they discussed with us various phases of the program as it went along. They asked our advice particularly with respect to problems that we might encounter in the way of operations, and we did consult with them on that basis. But we had, as I say, nothing to do with the development of either one of the programs.

Senator CARLSON. That is all, Mr. Chairman.

The CHAIRMAN. Senator Douglas.

Senator DOUGLAS. Mr. Roche, were you here this morning?

Mr. ROCHE. Yes, Senator Douglas, I was.

Senator DOUGLAS. At the end of the period I read a quotation from the Toronto Globe and Mail for today as it was reported to me, page 4 of the business section (you remember that this was a speech which President Todgham of Chrysler, the Canadian, made in Calgary yesterday):

Canadian car buyers would not receive any price reductions as a result of the Canadian-United States automotive trade agreement.

He went on to say that the hoped Canadian auto makers would be able to hold their 1965 price levels, although he hinted that even this may be impossible.

May I ask you what the policy of your company will be in Canada? Will you reduce prices because of the reduction or the elimination of the tariff on American cars going into Canada?

Mr. ROCHE. I would say, Senator Douglas, that we have not reduced prices on our cars since this proposed agreement—

Senator DOUGLAS. What about the future?

Mr. ROCHE (continuing). Has been considered.

Senator DOUGLAS. The Secretary of Commerce this morning admitted that this was so, so far as sales since January 16 are concerned. But he held out the prospect that there would be reductions in the future. Now, apparently Mr. Todgham does not hold out that prospect, and I wondered if you were ready to declare a policy.

Mr. ROCHE. With respect to our prices, we are in the course of bringing out some new models and getting started with new model production both in the United States and Canada.

Senator DOUGLAS. Yes.

Mr. ROCHE. And our pricing policies have not been finally developed. I would say, however, that there would be some very practical problems with respect to reductions in Canadian prices at this time.

Senator DOUGLAS. There would be real problems in reducing prices.

Mr. ROCHE. In reducing prices, yes, sir.

Senator DOUGLAS. So the prospects are, I take it, that there will be no reduction in Canadian prices.

Mr. ROCHE. I would say it will be very difficult to reduce Canadian prices under existing conditions. There are a lot of problems that still have to be resolved in connection with this program. This program is going to require a major revision of our operations in Canada to comply with these various provisions, and until our plans are finalized and until our costs are accurately developed—the costs in Canada today are substantially higher than they are in the United States—it is very difficult to make any forecasts with respect to the future of prices.

However, for the long pull and over the longer range future, I think that with the economies of operation that this type of program may lead to down the road, that it is logical to expect that at some future time the price differential between the Canadian and the United States automobiles will be narrowed.

Senator DOUGLAS. That is very indeterminate.

Mr. ROCHE. But it is indeterminate with respect to the time and how the actual program will work out after it is finally effected.

Senator DOUGLAS. And in the meantime you are saving about \$50 million a year, I mean the industry as a whole is saving about \$50 million a year in tariff duties not paid.

Mr. ROCHE. Well, that is the figure that has been quoted.

Senator DOUGLAS. Approximately.

Mr. ROCHE. And I would expect that that is an approximate and a good estimate perhaps. However, I do not think it is fair to say that that duty saving is actually being saved, because as a part of accomplishing that duty program, it is incumbent upon ourselves, speaking for General Motors, and also for the other manufacturers, to undertake manufacturing and changes in our program in Canada which are costing substantial sums of money, and at the present time our costs of producing in Canada are considerably higher than they are in the United States.

Senator DOUGLAS. I am simply speaking of the American cars being shipped to Canada today upon which no duty will be paid, or is being paid.

Mr. ROCHE. Well, yes, but they account for a very small percentage of the total cars.

Senator DOUGLAS. I know, but if you take the total duties now being paid on all branches—and I suppose you represent roughly half of \$50 million—this will be forgiven but apparently not passed on, and therefore it can only be retained by the company.

As I say, it is somewhat unique to have an American Senator try to defend the Canadian consumer. Ordinarily this is not my business, but it does directly affect American producers because if you do not expand demand through—and this is in addition to growth I should say—if you do not expand demand by a reduction in price, quantity demanded by a reduction in price, the increased investment which you make and the increased Canadian content can only be fulfilled through an expansion of the American market and a displacement of American independent parts manufacturers.

Mr. ROCHE. Well, we feel first of all, Senator Douglas, that there is going to be a substantial growth in Canada and in the United States.

Senator DOUGLAS. Yes, but this is in addition to growth. The terms of the letters which I read this morning are very clear that this is in addition to growth. It is not "or." They do not speak of "or." They speak of "and."

Mr. ROCHE. It is an addition to the growth of the Canadian domestic market.

Senator DOUGLAS. That is right.

Mr. ROCHE. That is correct, but again to go back to the comment made in my statement, we feel that by 1970—and this will be a steady increase each year between now and then, in our view—the growth of the combined Canadian and United States markets is going to be such that this transition can be accomplished without any substantial loss in the United States.

For example, we feel that on the basis of the growth potential as we analyze it, that under the terms of this agreement, if it is eventually carried out as established here today, that what this means is the combined growth in the North American market including both Canada and the United States, that 84 percent of this growth is going to come back to the United States instead of 93 percent that would be the case if this plan were not put—

Senator DOUGLAS. At the moment I am not questioning the program as a whole. I am simply dealing with this particular sector of it, and apparently I think we have now established that neither in the present nor in the immediate future will the Canadian consumers gain because of this removal of the tariff.

Now, if I may, I would like to read from the Canadian publication, the Canadian Automotive Trade, February 1965, page 34, the sixth paragraph:

Canada will lose about \$50 million yearly in duties collected on cars and parts.

This will be duties now paid which will not be paid in the future.

This will not be passed on to the public in lower prices for imported U.S. models. Car companies will be allowed to retain the saving and use it to increase plant efficiency, build more plants, increase production so that by 1968 another 50,000 Canadians will be employed in the car industry.

Is that really part of the agreement which you made with the Canadian Government?

Mr. ROCHE. We made no agreement with the Canadian Government.

Senator DOUGLAS. I mean your Canadian subsidiary did.

Mr. ROCHE. Our Canadian subsidiary simply wrote a letter to the Minister of Industry in Canada outlining our understanding of the requirements for us to continue operating in Canada, and under that—

Senator DOUGLAS. The Canadian Automotive Trade Journal published this in February, and it is lived up to precisely in September. The Canadian automotive trade knew apparently what the gentleman's agreement was in Canada as early as its February issue. I imagine it was published either early in February or late in January, and then the developments as of today or yesterday completely bear out this prediction.

I only wish that members of the State Department and of the Commerce Department and of the Treasury Department were here so that I might ask them whether they knew what was in the wind.

Mr. ROCHE. I do not think that anybody knew what was in the wind. I do not think we still know what is in the wind. I would like to call attention to the fact that this agreement is supposedly for a 4-year period, just to get back to that for a moment. Yet we are well into the second year of this agreement with no affirmative action being taken to implement it at this point, so we are still operating in sort of a vacuum with respect to the things that we have to do in Canada.

Senator DOUGLAS. Canada has taken action because Canada issued orders in counsel on the precise day the agreement was signed.

Mr. ROCHE. Canada has taken action, but the U.S. Government has not taken action.

Senator DOUGLAS. I understand.

Mr. ROCHE. And many of the things that are going to have to be done in Canada have to be integrated with the United States, and if the U.S. Government does not take action on this, then it is questionable how much of this integration can be accomplished. I think that is the very real problem that we have.

Senator DOUGLAS. Even if it is carried out, it is not your intention to reduce prices.

Mr. ROCHE. It is not our intention to reduce prices until we know what our costs are going to be.

Senator DOUGLAS. Now, Mr. Roche, I do not want to be tough, but I fought for the reduction in excise taxes last year against heavy opposition, and I favored the removal of the tax on automobiles. I took a great deal of criticism from some of my dear friends and colleagues on this committee who said that the reduction in taxes would never be passed on to the American consumer. Now, in order to make certain that this was going to be so, that it would be passed on, I addressed telegrams to the presidents of each one of the four companies and received replies that they intended to pass on the cuts.

As I remember it, the cut in the initial year was 3 percent. Has that been done?

Mr. ROCHE. Yes, sir; that has been done.

Senator DOUGLAS. Now, what about next year on the 1966 models? What is going to be done on the 1966 models?

Mr. ROCHE. They have already been passed along on the 1965 models. The 1966 models have not been priced yet.

Senator DOUGLAS. What is going to be the price?

Mr. ROCHE. I think that the pricing on the 1966 models is going to be determined in the light of our costs for the 1966 models.

Senator DOUGLAS. There has been a reduction of 3 percent in the taxes.

Mr. ROCHE. Yes, but there have been increases in other costs of the car, and those things will have to be considered.

Senator DOUGLAS. May I read from the Detroit News, September 5, 1965, under this heading "Big Three To Boost 1966 Car Prices"? Let me go on. "Tax cut again to be erased. Optional extras to bear brunt of first rise in 7 years," by Ralph R. Watts, Detroit News automotive writer.

Now, I read the body of the article:

Most new car buyers are going to pay more for 1966 cars than they did for the 1965 models. It will be the first general price increase in 7 years. Everything auto buyers gained from the recent cut in excise taxes, and much more in some instances, will be wiped out when the new models appear late this month

and early in October. The Big Three auto manufacturers have not yet made a formal announcement on prices, but increases appear certain on the basis of information from various industry sources.

How will the price increases occur? Here are some of the methods. Base prices will go up on some models because of increased cost of labor and materials. Many items of standard equipment on 1965 cars will be made optional for 1966. Persons wanting these options will have to pay more for the car.

And so forth and so forth.

I ask unanimous consent that this article be printed in the record at this point?

The CHAIRMAN. Without objection.
(The article referred to follows:)

[The Detroit News, Sept. 5, 1965]

BIG THREE TO BOOST 1966 CAR PRICES

TAX-OUT GAIN TO BE ERASED—OPTIONAL EXTRAS TO BEAR BRUNT OF FIRST RISE IN 7 YEARS

(By Ralph R. Watts, Detroit News automotive writer)

Most new car buyers are going to pay more for 1966 cars than they did for the 1965 models.

It will be the first general price increase in 7 years.

Everything auto buyers gained from the recent cut in excise taxes—and much more in some instances—will be wiped out when the new models appear late this month and early in October.

A PRICE ON SAFETY

The Big Three auto manufacturers have not yet made a formal announcement on prices, but increases appear certain on the basis of information from various industry sources.

How will the price increases occur? Here are some of the methods:

Base prices will go up on some models because of increased costs of labor and material.

Many items of standard equipment on 1965 cars will be made optional for 1966. Persons wanting these options will have to pay more for the car.

Some items in the safety group, demanded on 1966 cars by the Government that are now optional, will be made standard, but their cost will be added to base prices. Estimates are that this alone will increase car prices by an average of almost \$65.

MORE FOR EQUIPMENT

These are only the major methods by which prices will be advanced. There are others, the most important of which will be an increase for some optional equipment.

In one instance, a high-priced compact with bucket seats and console as standard equipment will have them made optional. The base price of the car, accordingly, will be reduced.

But if the customer wants the bucket seats and console he will have to pay twice as much for them as the car price reduction.

This type of juggling will occur in many models—and it will be confusing to the car buyer.

In another instance a car that made its first appearance last March will be put into a more competitive price range by making certain items optional that have been standard.

OUT IN HORSEPOWER

These include self-adjusting seats, disk brakes, and some interior and exterior trim. A 145-horsepower engine will become standard on the car, replacing the current 155-horsepower engine, which will be made optional.

In this instance the base price of the car will be reduced by a couple of hundred dollars at least, but the customer will have to pay more than that if he wants the options that previously were standard.

Many items of optional equipment will be increased in price. These will include some adjustable steering wheels, wheel covers, interior and exterior trim, and such small things as parking indicators, in which improvements have been made.

A person would have to compare every type of optional and standard equipment to solve the price juggling.

What has prompted the car makers to make these moves?

A BUYING SPREE

For one thing, the public is on an optional buying spree, the likes of which the industry has never seen. This is in high contrast to a few years ago when car buyers were complaining that dealers were putting unwanted extras on cars, forcing buyers to take "loaded" vehicles.

One sales manager, commenting on the current buying tastes, said, "It's amazing—you can't sell 'em stripped."

Another contends that car buyers today "have the money to buy luxury—they want to be as comfortable as possible."

And it looks as if 1966 will see the trend reaching a new peak—at a price.

Mr. ROCHE. May I comment on that?

Senator DOUGLAS. Certainly, of course.

Mr. ROCHE. I also read the same story that you did, and that very same day in the Detroit Free Press there was a similar story by the automotive editor, Mr. Olmsted, who is the counterpart of Ralph Watts of the Detroit News, and the headline in the Detroit Free Press was that there would be no change in prices in 1966, so I think that this article—both of them are pure speculation.

Senator DOUGLAS. Is it true that the new models will be put on sale the end of this month?

Mr. ROCHE. Not for General Motors. Our first new models will go on sale on October 7.

Senator DOUGLAS. October 7.

Mr. ROCHE. Yes, sir.

Senator DOUGLAS. You have not reached a price policy yet on that.

Mr. ROCHE. Our prices are not established as of now.

Senator DOUGLAS. Pardon?

Mr. ROCHE. No.

Senator DOUGLAS. Though this is only 3 weeks off.

Mr. ROCHE. Three weeks, that is right.

Senator DOUGLAS. Would you be willing to inform this committee when October 7 comes what you do in the matter of prices?

Mr. ROCHE. I think we will be very happy to. Our prices are a matter of public record, Senator Douglas.

Senator DOUGLAS. As compared to last year.

Mr. ROCHE. And we would be delighted to; yes, sir.

Senator DOUGLAS. Here is the point. I went to bat for you fellows.

Mr. ROCHE. I know that you did.

Senator DOUGLAS. And I was told that I was a sucker, that there was no real intention to decrease prices permanently, and that even though there might be an initial cut, it would be covered up the next year under the change in models, and with the change in models an excuse would be made either for not cutting or for increasing. I said I have got the sworn word of the presidents of all four of these companies. I believe them to be honorable men, and I will stake my reputation on this.

So I put my head on the block in this matter. Now we get this statement.

Mr. ROCHE. Well, that is a statement and that is somebody's opinion. That is a newspaperman's opinion.

Senator DOUGLAS. I do not wish to be——

Mr. ROCHE. And I think that the good faith of General Motors and the rest of the industry insofar as I can determine was very well demonstrated when the prices were immediately reduced.

Senator DOUGLAS. On existing models.

Mr. ROCHE. Retroactively.

Senator DOUGLAS. Yes; existing models, that is the point. You can always cover up an increase under the guise of a change in model. Anyone who has experience in Government contracts will know that the prices can be padded when there is a change of plans or a change in drawings. That is where it comes in on that change of plans.

Mr. ROCHE. We shall be very happy to submit our prices to the committee. If you have any questions with respect to them, I will be glad to try to answer them, Senator.

The CHAIRMAN. You will submit them to the committee as soon as they are determined.

Mr. ROCHE. Yes, sir.

Senator DOUGLAS. That is all, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Senator DOUGLAS. By the way, is the reporter for the Toronto Globe & Mail in the room? Did you have a chance to verify whether my quotation from the Toronto Globe & Mail as of this morning is correct?

Mr. MACDONALD. No, sir; I did not.

Senator DOUGLAS. Would you?

Mr. MACDONALD. Yes, sir.

Senator DOUGLAS. Would you identify yourself for the record?

Mr. MACDONALD. Bruce Macdonald.

Senator DOUGLAS. A good Scotch name.

Mr. MACDONALD. Yes, sir.

Senator DOUGLAS. I will pay for the cost of a telephone call if you will step out and make it now. I will give you my charge card.

The CHAIRMAN. Thank you Mr. Roche. We were pleased to receive your testimony.

Mr. ROCHE. Thank you very much, Mr. Chairman.

The CHAIRMAN. The next witness is Mr. Fred G. Secrest, vice president and controller of the Ford Motor Co.

Take a seat, sir.

STATEMENT OF FRED G. SECREST, VICE PRESIDENT AND CONTROLLER, FORD MOTOR CO.

Mr. SECREST. Thank you, Mr. Chairman.

My name is Fred G. Secrest. I am vice president and controller of the Ford Motor Co. of Dearborn, Mich. We have filed with the committee, Mr. Chairman, copies of our full statement covering 16 pages, and with your permission I would like to enter it as part of the formal record.

I have prepared a brief oral summary which I will proceed to read, if it is satisfactory with you, and then submit myself to whatever questions committee members may have.

The Ford Motor Co. endorses H.R. 9042, the bill which is designed to implement the United States-Canadian Agreement Concerning Automotive Products of January 16, 1965. We believe that the agreement will—

(1) Increase the efficiency of the automotive industry, and promote a more rapid rate of growth in its output and its employment, in the United States and Canada.

(2) Maintain a major Canadian export market for U.S. producers of automotive products, and insure continuation of an automotive trade balance between the two countries that is favorable to the United States and yet acceptable in magnitude to the Canadian Government.

Registrations of new cars and trucks in Canada have ranged between 7 and 8 percent of U.S. levels in recent years. Over 90 percent of the vehicles sold in Canada are North American types, largely common with U.S. made products. Most of these vehicles are assembled in Canada, and they include substantial percentages of Canadian made components. This reflects the Canadian Government's longstanding policy of giving preferential tariff treatment to companies adopting such production patterns.

Although this policy has led to the development of a Canadian automotive industry employing over 80,000 people, the results are now unsatisfactory from Canada's standpoint:

First, the low-volume production runs and duplicate tooling requirements that characterize the Canadian auto industry have made it relatively high cost and inefficient. Automotive price levels in Canada are some 8 percent above those in the United States, despite per capita incomes more than 30 percent below the United States.

Second, as the Canadian market has grown, the content and tariff rules have not been sufficient to hold Canada's automotive trade deficit with the United States to acceptable levels. This deficit was about \$600 million in 1964, 60 percent higher than in 1961.

In general, efforts to ameliorate one of these conditions would be likely to magnify the other. The new agreement is a novel and imaginative attempt to reconcile the two goals. Briefly, it provides duty-free treatment to new motor vehicles and original equipment automotive parts traded between the two countries by or for designated manufacturers. Canadian value-added requirements are continued, but in a manner that will, over time, permit them to be achieved through efficient, high-volume production of components for both United States and Canadian use. This contrasts with the rigidity of the old arrangement whereby Canadian manufactured components could be counted for content only when used in the production of vehicles in Canada.

The agreement and its associated qualifications cannot be considered perfect. It will not bring about completely free automotive trade. Perhaps such a result can some day be achieved without an unacceptable strain on the Canadian trade balance. In the present circumstances, however, the limited free trade approach provided by the agreement seems entirely reasonable.

Our full statement filed for the record describes in some detail the qualifications on automotive trade that will result from the agreement and the "letters of undertaking" furnished by the various Canadian automotive producers to the Canadian Government. Their effects may be summarized as follows: U.S. producers will be given free access to the Canadian market, subject to assurances that Canada will (1) retain the level of automotive business it has had in the past; (2) share reasonably in whatever growth may occur in its own market; (3) receive enough new business to reduce below what would otherwise be the case its imbalance of automotive trade. Note that under any reasonable projection of future trade, the United States, under the agreement and the "letters of undertaking" would still enjoy a very substantial favorable automotive trade balance with Canada.

Our detailed statement includes two charts projecting different rates of Canadian automotive market growth and Ford's United States-Canadian automotive trade balance in future years under these growth assumptions and under the terms of the agreement. We conclude from these that Ford, and the entire U.S. auto industry, will continue to earn substantial favorable trade balances for the United States under the new agreement—probably more than in 1963 or any prior year.

If the old tariff and content rules were to remain in effect, these favorable balances would be even greater; but, in our judgment, the Canadian Government would then be forced to restrict sharply its automotive imports through tighter content restrictions, higher external tariffs of import quota arrangements. Many other nations have already taken such actions; they have considered the cost—fewer and more expensive cars—to be preferable to the alternative of larger trade deficits and reduced employment.

In Brazil, for example, imports of automotive items from the United States dropped from \$82 million in 1958 to \$14 million in 1963 because of increased local-content requirements. Similar developments have taken place, and are taking place today, all over the world—in Argentina, Mexico, Australia, South Africa, and Europe. We see no basis for assuming that Canada, in its own national interest, would not follow similar courses if the pending agreement were not implemented. Such action could eliminate most of our automotive exports to Canada, with serious attendant employment losses for U.S. workers. I might add that this employment loss was quantified this morning in testimony by Secretary Wirtz in the range of 25,000 to 30,000 jobs—with adverse balance-of-payment effects, and of course even greater inefficiencies at Ford's Canadian affiliate.

It is important to keep the potential effects of this agreement in proper perspective, relative to the overall size and growth rate of the U.S. auto industry. Since 1961 the net value of Ford's U.S. automotive production has risen 37 percent; by 1968, we think that, even on a very conservative basis, the increase over 1961 will exceed 50 percent. This increase involves roughly \$2.5 billion in added U.S. output, and some 100,000 added U.S. jobs. In contrast, our projections of the 1968 effects of the Canadian trade agreement on Ford's U.S. trade balance range from plus \$35 million to minus \$19 million, compared with 1963. This comparison emphasizes the extremely small potential impact of the agreement on the total U.S. output and employ-

ment of Ford and its vendors. Conversely, loss of our entire Canadian export business because of possible restrictive moves by the Canadian Government would create a noticeable countereffect in this growth trend.

Finally, the timing of the agreement is significant. Our United States and Canadian companies are both operating at capacity. Both have plans for major expansion. Ford will spend over \$400 million on new or expanded facilities in the United States alone this year, and the 1966 total will be higher. If there were ever a time when the American auto industry—car makers, vendors, and workers alike—could afford to seek the longrun gains of more liberal trade, that time is today.

That concludes, Mr. Chairman, our summary of our reasons for support of the legislation.

(Mr. Secret's statement in full follows.)

STATEMENT OF FRED G. SECRET, VICE PRESIDENT AND CONTROLLER OF FORD MOTOR CO.

AUTOMOTIVE PRODUCTS TRADE ACT OF 1965

My name is Fred G. Secret. I am vice president and controller of the Ford Motor Co., Dearborn, Mich. We appreciate the opportunity to appear before the Committee on Finance of the U.S. Senate and to give you our views on H.R. 9042. Ford Motor Co. endorses this legislation. We think it will benefit both the U.S. economy and our company.

BACKGROUND

The United States and Canada constitute, essentially, a single automotive market, in which maximum growth in employment, efficiency, and productivity cannot be achieved without a reduction of existing trade barriers. National interests, however, require that solutions to the automotive trade problem be consistent with the economic goals in both countries. The agreement between the two Governments, signed on January 16, 1965, is designed to achieve these objectives.

Registrations of new cars and trucks in Canada have ranged between 7 percent and 8 percent of U.S. levels in recent years. Over 90 percent of the vehicles sold in Canada are "North American" types, largely common with U.S.-made products. Most of these vehicles are assembled in Canada, and, despite their high degree of interchangeability with U.S. vehicles, they incorporate substantial percentages of Canadian-made components. This reflects the fact that the Canadian Government has, for many years given preferential tariff treatment to companies producing cars that contain at least 60 percent Canadian content. The result has been the development of a national industry that now employs over 80,000 Canadians.

Nevertheless, the effects of this tariff policy have been unsatisfactory from Canada's standpoint:

1. Because of the low volume of Canadian automotive production relative to the United States, and the duplicate tooling required, the Canadian industry has been high cost and inefficient in many respects. This is demonstrated by Canadian automotive price levels some 8 percent above those in the United States, despite per capita income more than 30 percent below the United States.
2. Because of rising volumes, the Canadian content and tariff rules have not succeeded in holding Canada's automotive trade deficit to acceptable levels.

As demand for cars in Canada has risen, aggregate automotive imports (comprising as much as 40 percent of the cost of each car), have of course risen proportionately. Canada imported about \$660 million¹ in automotive items from

¹ All dollar data in this paper are expressed in U.S. dollars.

the United States in 1964; its automotive exports to the United States were less than one-tenth as large. Canada's resulting net adverse balance of about \$600 million was 60 percent above its 1961 adverse balance, despite its attempt to spur exports in 1964 through a duty-remission plan that has now been terminated.

It seems clear that higher tariffs or higher content requirements might improve Canada's trade balance, but at the expense of even greater cost inefficiencies. Conversely, unlimited entry of high-volume, low-cost U.S. components would tend to lower Canadian automotive costs and prices, but would further reduce Canada's already unfavorable participation in the North American automotive market and increase its trade deficit with the United States.

The new agreement is a novel and imaginative attempt to reconcile the two goals. Briefly, it provides duty-free treatment to new motor vehicles and original equipment automotive parts traded between the two countries by or for designated manufacturers. Canadian-content requirements are continued, but in a manner that will, over time, permit them to be achieved through efficient, high-volume production of components for both United States and Canadian use. This contrasts with the rigidity of the old arrangement whereby Canadian manufactured components could be counted for content only when used in the production of vehicles in Canada. As we shall demonstrate, we expect that the agreement will:

1. Increase the efficiency of the automotive industry, and promote a more rapid rate of growth in output and employment in both countries; and,
2. Maintain a major Canadian export market for U.S. producers of automotive items, and insure continuance of an automotive trade balance between the two countries that is favorable to the United States, and yet acceptable in magnitude to the Canadian Government.

QUALIFICATIONS ON FREE TRADE

The new agreement, with its associated qualifications, cannot be considered perfect. From the standpoint of the U.S. economy, of consumers in both countries and of Ford, the best approach might well prove to be completely free automotive trade between the United States and Canada. Perhaps such a result can some day be achieved without an unacceptable strain on the Canadian trade balance. In the present circumstances, however, the limited free-trade approach provided in the agreement seems entirely reasonable.

The agreement imposes certain qualifying restrictions on automotive trade. Some of these are contained in the definitions set forth in annex A of the agreement. Others are incorporated in the letters of undertaking that were furnished by the Canadian automotive producers to the Canadian Government and that were made public in April. I should like to describe, in summarized form, these restrictions:

Annex A of the agreement limits the Canadian duty-free treatment to imports by or for a vehicle manufacturer, and it establishes two significant criteria that must be met by a firm to attain, or to retain, "manufacturer" status:

1. For each producer, the ratio of the sales value of vehicles assembled in Canada to vehicles sold in Canada, in each future year, must be at least as high as the corresponding ratio during the 12 months ended July 31, 1964 (the base year). For Ford of Canada, the ratio was about 99 percent for cars and about 168 percent for trucks in the base year.
2. The aggregate dollar value of Canadian content in vehicles assembled in Canada by each company must be maintained at (or above) the level achieved during the base year. If the company's sales of vehicles in Canada should drop below the base year level, however, the dollar content requirements of this provision would be reduced proportionally. Exports of production parts to the United States from Canadian plants do not generally qualify as Canadian content under this provision.

Two further commitments are not included in the agreement itself but are in Ford of Canada's letter of undertaking to the Canadian Government:

3. If and when the level of Ford's sales in Canada rises above the base year level, the dollar value of Ford's Canadian content in cars must be increased by 60 percent (60 percent in trucks) of the cost of such added sales. For this purpose, however, Canadian content includes vehicles and production parts exported from Canada, by Ford or its vendors, as well as vehicles and production parts produced and sold in Canada.

4. Over and above all the other commitments, Ford undertakes to raise by 1968 its total Canadian content by \$69 million. The other Canadian automotive manufacturers have given proportional assurances. The total of these extra commitments, for the entire industry, amounts to \$241 million, or about one-half of Canada's 1963 automotive trade deficit. The content increase required under this provision may also be achieved through export of vehicles or production parts by Ford or its vendors, as well as by the manufacture in Canada of vehicles and production parts sold in Canada.

The purposes of these four qualifications are straightforward. The first is designed to maintain vehicle assembly operations in Canada in roughly the same proportion to vehicle sales in Canada as in the past. Of major importance here, however, is the fact that the cars produced in Canada do not need to be the same units that are sold in Canada. Ford could choose to meet a Canadian production requirement of, say, 150,000 cars by assembling 150,000 standard Fords, and no Mercurys or Falcons, in our Canadian plant. We could then ship half of these Fords to the U.S. market, and bring in from the United States enough of our other cars to equal the value of the exported Fords and to serve the Canadian market needs for the other lines. Plans of this general nature would greatly reduce the extreme cost penalties hitherto incurred in assembling 71 car models and 227 truck models in our single Canadian assembly plant.

The second provision—maintenance of aggregate dollar Canadian content at the 1964 level—is aimed at retaining a base level of manufacturing content in those vehicles that are assembled in Canada, thus discouraging immediate reorientation of the entire Canadian parts industry toward production of selected high-volume components, primarily for export. The significance of this fixed-dollar restriction will decline as the Canadian market grows. Ford's 1964 base year content, as defined here, was \$213 million, representing about 60 percent of the 1964 factory cost of our Canadian production. By 1968, we expect our Canadian volume to have grown substantially, so that the \$213 million requirement will be a considerably smaller percentage of our 1968 factory cost.

The third provision—60 percent Canadian content in market growth—would assure Canada of its historic proportion of any value increments associated with a rising Canadian market; it would, however, permit efficient use of this added value on high-volume production of certain vehicles or components for export, as well as for consumption in Canada. The fourth provision would simply reduce, by 1968, Canada's automotive trade deficit by \$241 million (below what it would otherwise be).

The net effect of the above requirements, imposed on what otherwise would be a completely free flow of vehicles and production parts into Canada, is as follows: the Canadian Government is assured that, if it gives U.S. producers free access to the Canadian market, Canada at last will: (1) Retain the automotive business it has had in the past; (2) share reasonably in any growth that may occur in its own market; and (3) receive enough new business to reduce, but not eliminate, its imbalance of trade in automotive products.

These are the principal qualifications involved in the agreement and the letter of undertaking. Among the restrictions not incorporated in either document, or anywhere else, are some that have been wrongly implied by various critics:

1. There is no differentiation between exports (or imports) of parts for original equipment produced by the auto companies and parts for such equipment produced by independent parts manufacturers, in either country.
2. There is no commitment to grant any share of the U.S. automotive market to Canadian producers of either vehicles or parts.

3. There is no commitment to raise Ford's investment or employment in Canada by specified amounts or percentages, although it seems probable that increases in both will occur to meet the need for added Canadian content.

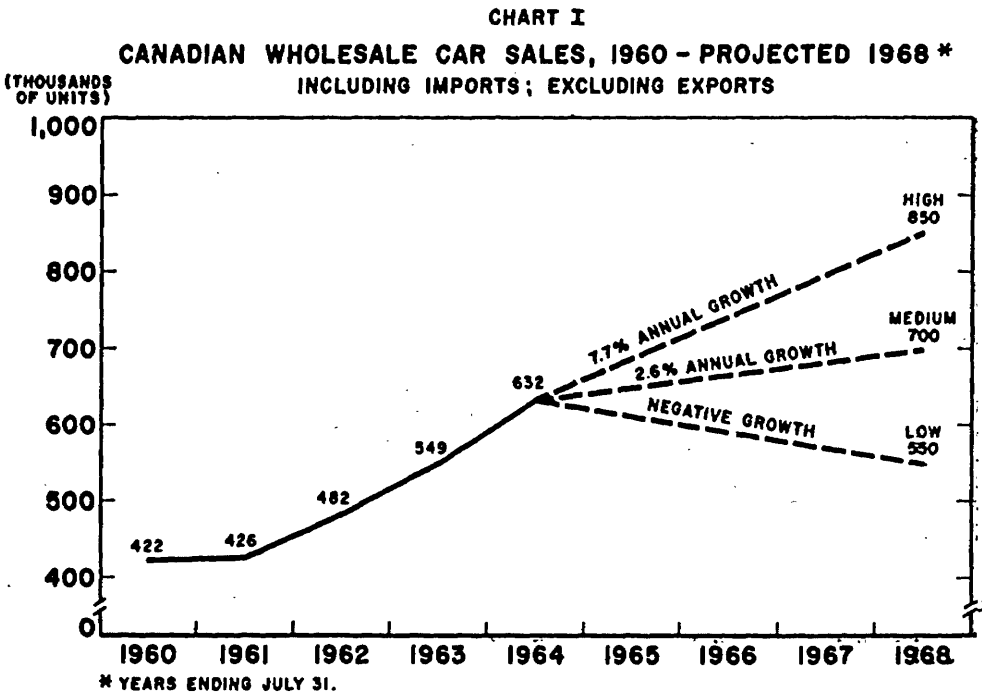
The key questions about the agreement would appear to be these:

1. What is likely to be its effect on the United States-Canadian automotive trade balance?
2. If the agreement should fail of implementation, what would be likely to happen next, and how would such developments affect the U.S. trade balance and employment?
3. Might the U.S. automotive industry, or specific major segments thereof, be adversely affected by the agreement?

EFFECTS ON UNITED STATES-CANADIAN TRADE

Turning to the first question, the probable impact of the agreement on our trade balance with Canada, the most important variable will be the rate of growth in the Canadian automotive market.

On chart I we have plotted three growth rates through 1968:

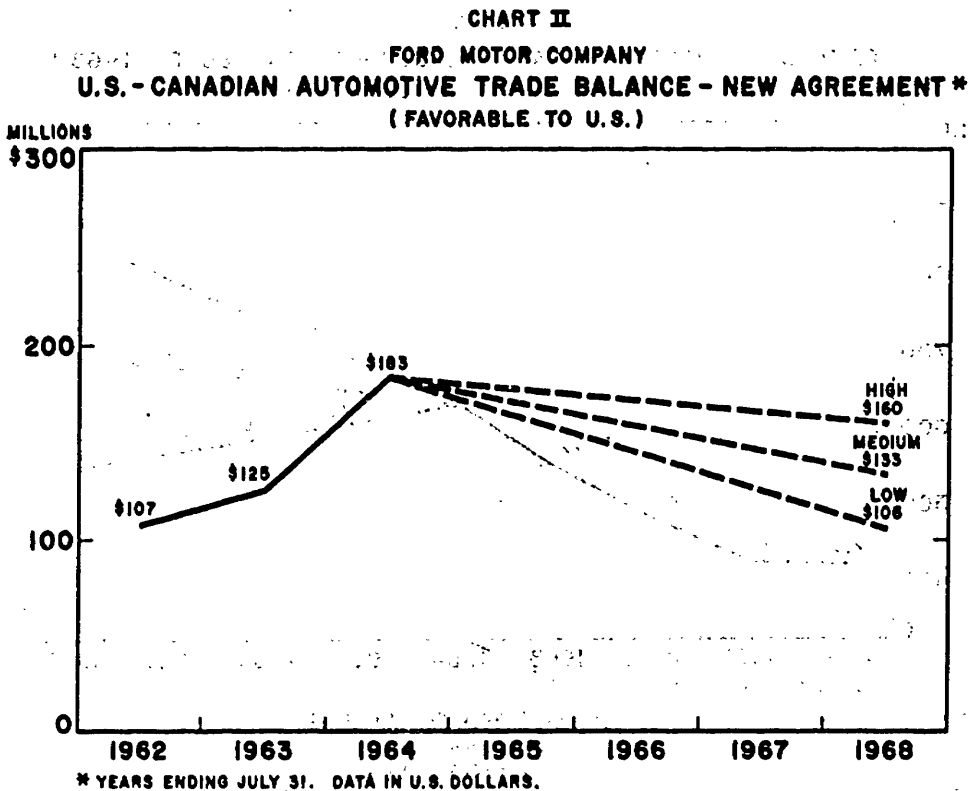


ACTUAL ANNUAL GROWTH RATES
1960 - 1964 +10.6%
1961 - 1964 +14.0%

The low assumption obviously treats the recent and current strength of the Canadian car market as a cyclical peak involving borrowing sales from the future. It projects 1968 demand at 550,000 cars, about the same as in 1963 and 13 percent below 1964. This seems most unlikely to us, particularly as 1965 model year actual sales proved consistent with the high rather than the low trend line. It is included solely to show the most pessimistic assumption possible from the standpoint of the United States.

The medium assumption suggests slow continued growth, at a rate of 2.6 percent a year, to a level of 700,000 cars by 1968. The high assumption yields a market of 850,000 cars in 1968, a growth rate of 7.7 percent annually after 1964. Although this may sound extreme, it is well below the annual rate of 10.6 percent at which the Canadian market has grown from 1960 through 1964. (For comparison, the U.S. auto market grew 5.1 percent annually between 1960 and 1964, and 10.9 percent annually between 1961 and 1964.)

Chart II shows Ford Motor Co.'s actual automotive balance-of-trade position between the United States and Canada for 1962-64. It projects similar data for future years (based on volume estimates that include trucks and service parts as well as cars) under the new agreement for each of the three basic growth assumptions:



Even under the low growth assumption, Ford would generate an estimated \$106 million favorable trade balance with Canada by 1968. Under the high assumption, Ford's United States automotive trade surplus with Canada in 1968 would be \$160 million, \$35 million or 28 percent above the 1963 level, and only 13 percent below 1964.

The conclusion, of course, is that we expect Ford, and the U.S. automotive industry, to continue to earn substantial favorable trade balances for the United States under the new agreement—probably more than in 1963. Does this mean that the Canadian Government has been incredibly wrong about the probable results of the agreement? Not at all; for if the market were to grow at the medium rate, and the old tariff and content rules were to remain in effect, we believe Ford's balance alone would approximate \$200 million unfavorable to Canada by 1968, as shown in chart III.

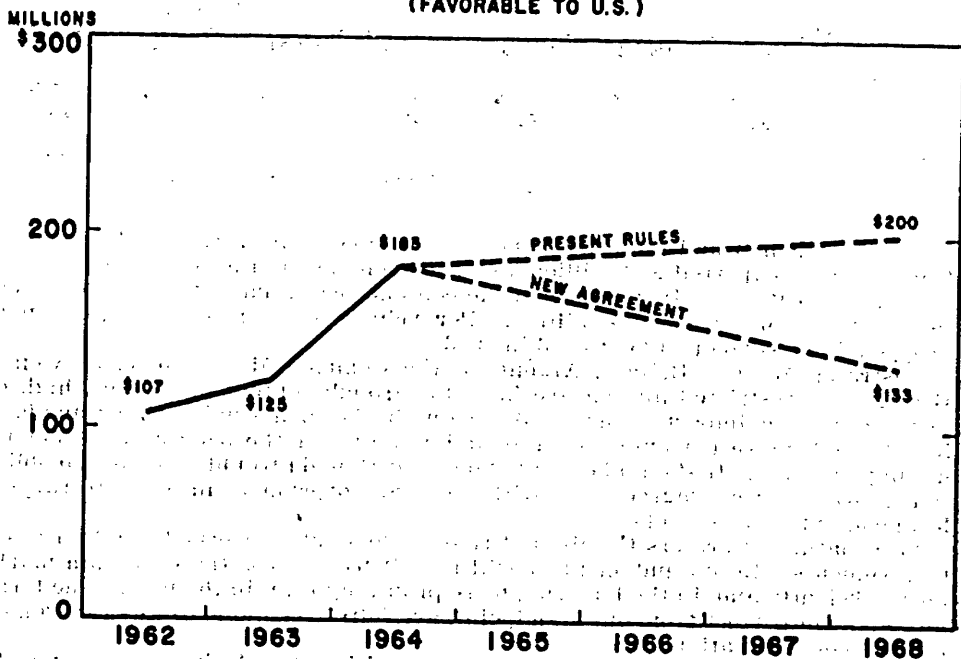
From Canada's standpoint, then, a 1968 trade deficit of \$133 million on Ford's United States-Canadian business would represent about a one-third improvement compared with continuing the present trade rules—even though, in aggregate dollars, the result would still be worse than 1963.

If the agreement thus would alleviate Canada's trade-balance problem why should not the United States, in its own self-interest, reject the agreement and insist on retention of the present rules? This raises the second major question—in such an event, what would Canada do next?

EFFECTS OF ALTERNATIVES

Speculation here may be dangerous, but we do know what other nations have done. They have acted to reduce automotive imports very substantially, through high tariff walls, restrictive local-content requirements, quotas, licenses, or combinations of these. Their consumers have paid a heavy price for this in terms

CHART III
 FORD MOTOR COMPANY
 U.S. - CANADIAN AUTOMOTIVE TRADE BALANCE*
 (FAVORABLE TO U.S.)

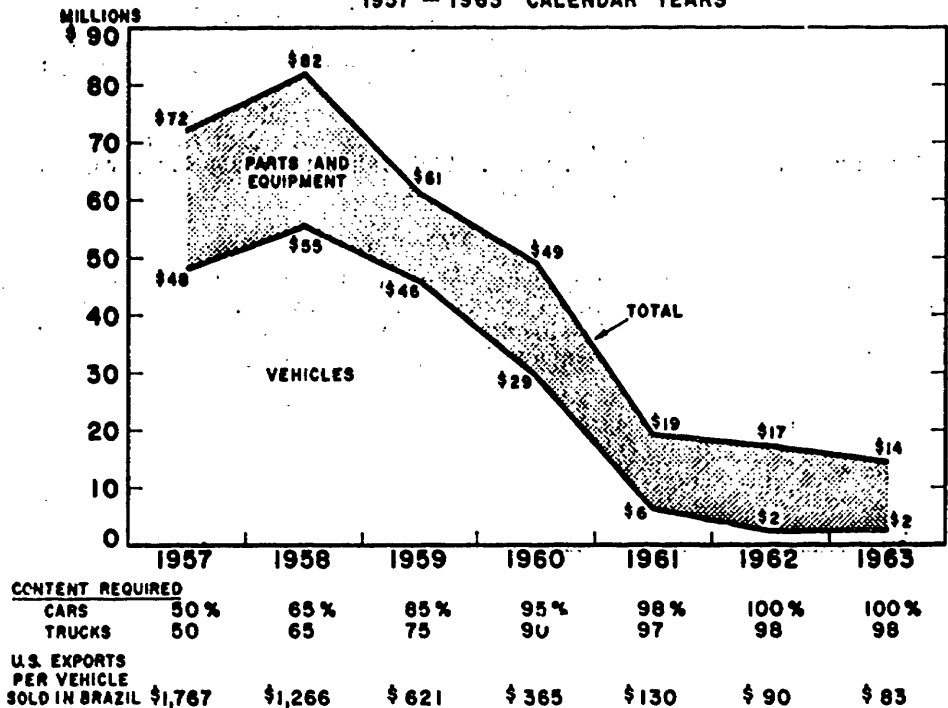


* YEARS ENDING JULY 31. DATA IN U.S. DOLLARS.

of fewer and more expensive cars; but this price has been considered preferable to widening payments deficits and reduced employment. Chart IV shows the effect of such policies in Brazil on U.S. automotive exports in recent years:

CHART IV

**U.S. AUTOMOTIVE EXPORTS TO BRAZIL
1957 - 1963 CALENDAR YEARS**



In 1958, when Brazil required 65 percent local content on cars and trucks, the United States exported \$82 million worth of vehicles and automotive parts and equipment to Brazil. In 1963, when the content requirement was 98 to 100 percent, U.S. exports were \$14 million. Per vehicle sold in Brazil, U.S. exports dropped from \$1,266 in 1958 to \$83 in 1963.

Australia, Mexico, Britain, Argentina, the Common Market bloc, as well as Brazil, have restricted automotive imports through content provisions, high external tariffs, or import licenses. We see no basis for assuming that Canada, in its own self-interest, would not take similar action if the pending agreement is not implemented. It should be pointed out that Canada would be under no obligation to work out an "agreement" with the U.S. Government in order to raise its local content requirements.

Ford naturally prefers the limited free trade solution worked out by the two Governments. In our judgment, it will permit us to serve the Canadian market more efficiently and, in the long run, more profitably than in the past. The terms, although not perfect from our standpoint, are fully acceptable to us as reasonable products of negotiation.

Parenthetically, it should be noted that neither the United States nor the Canadian Government has forced us to make the assurances described earlier in this statement. We think the agreement, and the associated assurances given by Ford of Canada, are in the best interests of both Ford-United States and Ford of Canada. If the agreement should not be implemented we think Canada would eventually take actions that would reduce the already unsatisfactory profitability of our Canadian operations, by forcing even greater inefficiencies.

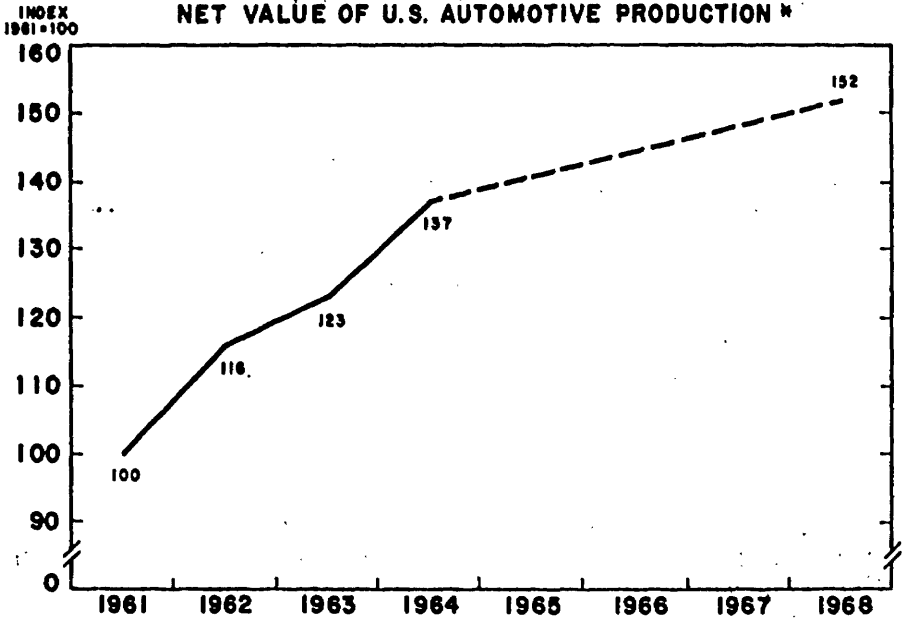
EFFECTS ON THE U.S. AUTOMOTIVE INDUSTRY

Let us now consider briefly the possible effects of the agreement on the U.S. automotive industry. If and when the agreement becomes fully operative, Ford-United States and its American vendors will, of course, have a strong incentive to increase their Canadian purchases. But the heart of the agreement is its incentive for trade expansion in both directions. Many automotive products now made inefficiently in Canada will in the future be supplied from efficient U.S. sources. We have cited the assembly example; any U.S. job losses that might result from importation of Ford cars from a Canadian plant would be offset by additional jobs needed to produce more of our other car lines for export to Canada. We should expect similar offsets in other segments of our business.

There is, of course, nothing in the agreement or the supplemental assurances that makes available only to the vehicle manufacturers, and not to the parts makers as well, opportunities for profitable expansion of exports to Canada. Let us assume that Ford of Canada is buying dozens of different kinds of wiring assemblies for its 298 models from a Canadian producer. It may well prove efficient under the new rules for this producer to sell only a few kinds of wiring assemblies to both Ford of Canada and Ford-United States. Our American suppliers of all the other types of wiring assemblies, then, would have access for the first time to a duty-free Canadian market, in addition to their retained American market. There is no basis for assuming that transfers of business to Canada from the United States, if they do occur, would come principally from independent parts makers, rather than from the U.S. plants of the auto producers themselves.

It is important to keep the potential effects of this agreement in proper perspective, relative to the overall size and growth rate of the U.S. auto industry. Chart V shows, in index form, the net value of Ford's U.S. automotive production for 1961-64, with a projection through 1968 based on the expected normal growth rate of our business and on implementation of the agreement. (The term "net value of U.S. automotive production" means total automotive sales in the United States, plus exports, minus imports; it includes our vendors' contributions, as well as our own.)

CHART V
FORD MOTOR COMPANY
NET VALUE OF U.S. AUTOMOTIVE PRODUCTION *



Year	1961	1962	1963	1964	1965	1966	1967	1968
U.S. PRODUCTION AS % OF U.S. SALES	106%	105%	106%	107%	106%	106%	106%	105%

* PROJECTIONS ASSUME IMPLEMENTATION OF U.S.-CANADIAN AGREEMENT

Since 1961 the net value of Ford's U.S. production has risen 37 percent. By 1968, we project (conservatively, we think) that the increase over 1961 will exceed 50 percent. This increase involves roughly \$2½ billion in added U.S. output—and about 100,000 added U.S. jobs. Compare this with the projections shown earlier (chart II) of changes versus 1963, ranging from plus \$35 million to minus \$19 million in Ford's 1968 trade balance resulting from the Canadian agreement, and one can get a better idea of the nominal effects of the agreement on the total U.S. output and employment of Ford and its vendors. Further, as shown below the chart, Ford's net value of U.S. automotive production will continue to exceed, in future years, the value of our U.S. sales by 5 to 6 percent; in other words, we expect our exports of automotive products, to all markets combined, to outdistance our imports by about the same percentage as in recent years.

CONCLUSION

In summary, we believe that the agreement offers the United States a continuing favorable automotive balance of trade with Canada that will approximate \$500 to \$600 million by 1968 and that it also offers to the North American auto industry the opportunity for efficient volume production. These benefits compare with the alternative of an almost certain increase in trade restrictions by Canada that would eliminate most of our automotive exports to Canada with serious attendant employment loss for U.S. workers.

Finally, the timing of the agreement is significant. Our United States and Canadian companies are both operating at capacity. Both have plans for major expansion—Ford will spend about \$400 million on new or expanded facilities in the United States alone this year, and the 1966 total will be higher. If there were ever a time when the American auto industry—car makers, vendors, and workers alike—could afford to seek the longrun gains of more liberal trade, that time is today.

The CHAIRMAN. Thank you very much, Mr. Secret.

Any questions?

Senator DOUGLAS. Mr. Chairman, I would like to have Mr. Bruce Macdonald stand up.

Mr. Macdonald, have you talked to your home paper, the Toronto Globe & Mail?

Mr. MACDONALD. Yes, sir.

Senator DOUGLAS. Was the quotation which I gave an accurate description of what appeared in the Toronto Globe & Mail this morning?

Mr. MACDONALD. Yes, sir; I am so advised by my paper.

Senator DOUGLAS. I will be very glad to pay for the cost of the telephone call.

Now, if I may ask my friend, Mr. Secret, here, what are you going to do in Canada, what have you been doing in Canada on the price of Ford cars? Have you decreased the price of Ford cars because of the reduction of 17½ percent in tariffs?

Mr. SECREST. No, Senator Douglas, there have been no changes.

Senator DOUGLAS. In the prices?

Mr. SECREST. In the prices of our cars in Canada.

Senator DOUGLAS. So the Canadian consumers have not benefited from the reduction in tariff?

Mr. SECREST. I would like to make one comment. You are discussing now, I believe, specifically the question of the tariff reduction on the American cars that are exported into Canada fully assembled from the U.S. plant.

Senator DOUGLAS. That is right.

Mr. SECREST. I think Ford may constitute a rather unique case. Annex A of the trade agreement contains, among other things, a qualification that must be met by a Canadian company in order to

qualify for elimination of the duty. The ratio of automobiles produced in Canada to the ratio of automobiles sold by that manufacturer in Canada must be at a level that is at least as high as in the base period, the base period representing the 12 months ended July 31, 1964.

Now, if an individual company is unable to attain that ratio because its imports of cars from the United States rise proportionately more rapidly than its sales of cars in toto, then it is subject to duty on the excess units imported.

During the 12-month period ended in July of 1965, we have imported into Canada about 13,000 cars, which is approximately four times as many as in the prior year. Ninety percent of those imports were Mustangs. Naturally, we are pleased to note that the Canadian consumers, like those in the United States, have been favorably disposed to that vehicle. It is not assembled in Canada.

As a result of this significant increase in our Mustang imports, we have been paying the duty on many of the Mustangs because they were overquota units. So in that case, we haven't had any duty saving to pass on.

Senator DOUGLAS. But you have had some duty savings?

Mr. SECREST. Yes, sir; we have, and this next year we may be able to—

Senator DOUGLAS. Have you estimated what the duty savings amounted to for Ford, Canada?

Mr. SECREST. Well, I haven't got the estimate for the first 7 months that the agreement has been in effect.

Senator DOUGLAS. January.

Mr. SECREST. I think that a figure of around \$14 million a year would be a reasonable going rate, it is the total amount of the duty.

Senator DOUGLAS. This has not been reflected in any reduction in price?

Mr. SECREST. It has not.

Senator DOUGLAS. Now, the quotation which I put in the record was from the president of Chrysler in Canada, and was from the Toronto Globe & Mail, a highly reliable newspaper. One branch of it in the past has not been too friendly to the United States but that is neither here nor there. The president of Chrysler, Canadian, Ltd., said that:

In the future Canadian car buyers will not receive any price reductions as a result of the Canadian-United States Automotive Agreement.

May I ask what the policy of Ford, Canada is likely to be?

Mr. SECREST. Well, I think that it is my own view that the operation, the successful operation of this agreement over a period of years—

Senator DOUGLAS. But I mean in the immediate future.

Mr. SECREST. In the immediate future?

Senator DOUGLAS. Yes.

Mr. SECREST. As in the case of the previous witness, our Canadian models will be introduced within the next 3 to 4 weeks.

Senator DOUGLAS. Yes.

Mr. SECREST. Prices for those cars have not been established at this time, and I frankly don't know whether there will be reductions or not. I think that some—

Senator DOUGLAS. At the moment you are speaking of Ford, Canada?

Mr. SECREST. Yes, Ford, Canada, that is what I am referring to.

Senator DOUGLAS. But the head of Chrysler, Canada, was very clear that there would be no price reductions, and indeed he hinted that there might be increases.

Mr. SECREST. I can't comment on Mr. Todgham's remarks. I am not sufficiently familiar with them. I think that there will be a number of factors that may affect price trends in Canada, both in the short and long run.

But the overwhelming sense of those who have testified in support of this agreement is that if, as, and when the functioning of the agreement permits Canadian production costs to be brought down closer to U.S. production costs, then there can be no doubt that there will be—

Senator DOUGLAS. But in the meantime, the reduction in tariff will not result in any saving to Canadian consumers?

Mr. SECREST. I don't want to say that it may not. I don't know how long you mean by—

Senator DOUGLAS. It has not in the past 5 months.

Mr. SECREST. It has not, that is correct.

Senator DOUGLAS. Is there any immediate prospect that it will?

Mr. SECREST. I just can't say. The pricing decisions haven't been made yet.

Senator DOUGLAS. You heard me read the quotation from the Detroit News for September 5 of this year, saying that the Big Three were going to increase 1966 car prices inside the United States. Could you tell me if this is going to be the policy of Ford?

Mr. SECREST. Well, the 1966 model prices of Ford have not been established.

Senator DOUGLAS. You haven't discussed them yet inside the company?

Mr. SECREST. They haven't been established. There has been no decision reached.

Senator DOUGLAS. No decision?

Mr. SECREST. On the prices.

I think it is public knowledge, and I imagine knowledge available to the newspaper people that there will be some equipment changes on the 1966 models. Specifically a number of items of safety-related equipment, formerly offered as options and in many cases installed on substantial percentages of the cars, will be made standard equipment.

Senator DOUGLAS. You heard my comment that you can always cover up an increase in price under the guise of a change in model.

Mr. SECREST. Well, with all due respect, Senator Douglas, I think that our industry today lives in somewhat of a goldfish bowl on the subject of pricing, particularly in view of the comments that you have made earlier and the recent reduction of the excise tax. I would think it most unlikely that anything you would describe as a coverup would be attempted by the industry, certainly by our company. We are prepared to discuss openly and frankly whatever pricing action we feel it necessary to take.

Senator DOUGLAS. You are aware that many of us who were successful in getting the tax reduction through for the industry did so under the solemn assurance that the cut would be passed on to the consumers.

Mr. SECREST. Yes, sir; I certainly am.

Senator DOUGLAS. We put our reputations on the line, because we trusted you.

Mr. SECREST. I think your trust will be vindicated, fully vindicated.

Senator DOUGLAS. In a reduction in price?

Mr. SECREST. Well, the price has already been reduced.

Senator DOUGLAS. Oh, on 1965 models. I am speaking of 1966 models.

Mr. SECREST. I think that the pricing action that Ford eventually takes on its 1966 models will be pricing action that the company can defend fully and it will be fully vindicated. I think you would agree, sir, that if the standard equipment on an automobile changed substantially, either up or down—and there will be changes in both directions—and the prices changed accordingly, with the magnitude of the price changes having been established by the prices previously charged for the same equipment as options, that this would pose a valid basis for a discussion—

Senator DOUGLAS. It would create a basis for argument.

Mr. SECREST. No, I really don't—

Senator DOUGLAS. But will it constitute a reduction in the price of a substantially similar car? You are going to be freed of a great tax burden.

Mr. SECREST. We have already.

Senator DOUGLAS. What is the retail price of your normal Ford car, I mean your wholesale price, \$1,800?

Mr. SECREST. I would say on the average \$2,000 to \$2,200.

Senator DOUGLAS. \$2,000. Well, now, ultimately you are going to be freed from a tax of \$200 or \$180.

Mr. SECREST. Yes.

Senator DOUGLAS. Now, who is going to get that?

We thought the public was going to get it.

Mr. SECREST. I am confident that the public has gotten it.

Senator DOUGLAS. We made the tax cut on that basis. You told us the public was going to get it. We assured the consumers, our constituents. You are not going to let us down, are you?

Mr. SECREST. I think we are debating hypothetical actions that haven't yet been taken. The initial tax was passed on immediately, and if there are any further changes up or down in the prices of the vehicles over a period not just of next month but over the next several years, I think they will be justifiable by changes.

Senator DOUGLAS. The head of General Motors has been very kind, saying he would inform this committee when the new prices come out how the prices of 1966 models compared with 1965 models. Would you be willing to do so?

Mr. SECREST. I will be glad to do that, Senator, Yes.

Senator DOUGLAS. Thank you.

Mr. SECREST. I might add one more point with respect to our Canadian company. Again, Ford occupies a position that is somewhat unique relative to our competitors, in that Ford Canada has a substantial, publicly held, minority stock interest. Its financial statements and earnings records are public. Therefore, I think that it will be relatively easy to determine from the examination of these financial statements whether the duty savings are being reinvested in actions

necessary to meet the terms of the agreement or whether they are fattening up the coffers of the corporation.

Senator DOUGLAS. Let me ask you this: You also heard me read from the Canadian Automotive Trade from the issue as far back as February, which said that it is not intended that the reduction in tariff should benefit consumers. I will read it again.

Canada will lose about \$50 million yearly in duties collected on cars and parts—

that is your Canadian subsidiaries will not pay these amounts. Then the gentleman went on to say:

This will not be passed on to the public in lower prices for imported U.S. models. Car companies will be allowed to retain the saving and use it to increase plant efficiency.

Now, was this the understanding when you made that agreement with the Canadian Government?

Mr. SECREST. There was no understanding of any kind, and there is no understanding.

Senator DOUGLAS. How did the Canadian Automotive Trade publish this right at the time of the agreement and have it turn out to be 100-percent correct unless there was an understanding or agreement to this effect?

Mr. SECREST. I don't agree that the statement is a hundred percent correct.

If I heard it correctly, it says that there is an understanding or agreement that the Canadian companies would be permitted, et cetera, and I don't believe that there was or is any understanding or any agreement.

Senator DOUGLAS. Isn't it extraordinary that this Canadian journal should be so accurate? This is a very grave charge that the Canadian Automotive Trade is making. It is charging that the Canadian Government agreed with the companies that there would be no reduction in prices and that the companies could pocket the amounts of tariffs not paid presumably in return, however, for expanding their capital equipment in Canada, and being able to turn out more parts at reduced costs, which could only have the effect of finding an outlet in the American market, because this, I repeat, is in addition to growth.

Mr. SECREST. Well, the only comment I would like to make, Senator, is that the publication says, "Car companies will be allowed to retain this savings."

As far as I know, and I can speak, I think, with full assurance on this point, the decisions by Ford of Canada as to how much and when and under what conditions to change its prices are decisions that are made by—

Senator DOUGLAS. Do you have price control in Canada?

Mr. SECREST. No, sir.

Senator DOUGLAS. If you don't have price control, then prices are determined by the companies?

Mr. SECREST. That is the point I am making. I can't see the relevance of a comment "car companies will be allowed to retain the saving." If this was a forecast by a newspaper or a trade journal of what action the companies would elect to take, I would agree that to date that

action, that forecast has proved correct, except that in our case many of the savings have not yet been attained because we haven't—

Senator DOUGLAS. You have saved \$14 million.

Mr. SECREST. A portion; yes.

Senator DOUGLAS. No further questions.

The CHAIRMAN. Senator Carlson?

Senator Dirksen?

Thank you very much.

Mr. SECREST. Thank you, Mr. Chairman.

The CHAIRMAN. The next witness is Mr. David W. Kendall, vice president, Legal Affairs, Chrysler Corp.

We are happy to see you, sir.

Proceed.

STATEMENT OF DAVID W. KENDALL, VICE PRESIDENT, LEGAL AFFAIRS, CHRYSLER CORP.

Mr. KENDALL. Mr. Chairman, Senator Byrd, members of the committee, my name is David W. Kendall. I am vice president, Legal Affairs, Chrysler Corp., Highland Park, Mich.

We appreciate very much the opportunity which you afford to appear before the Senate Finance Committee to express views on the United States-Canadian automotive products agreement.

The statement will be brief, merely touching the highlights of our position on this proposal which combines an imaginative concept with a very pragmatic approach necessary to meet the increasingly difficult task of maintaining world leadership of the U.S. automobile industry.

Most nations, for various reasons of pride, and of balance of payments, have through the years imposed heavy penalties on automotive imports into their countries. In recent years especially, the so-called developing countries, with limited manufacturing capacities and low-volume domestic markets, in an effort to establish their own self-sufficient automobile industries, have imposed strict controls on the flow of automotive products into their countries.

The most common method, as you have heard here in the last couple of days, of achieving this is the establishment of a local content requirement. Such a requirement, which can be enforced through direct law or through a system of differential duties, not only forces local assembly of automotive vehicles, but also the use of a specified percentage of locally produced parts in those vehicles.

Because Chrysler has only recently entered the international automotive scene with vigor, since the mid-1950's in fact, we are perhaps more experienced in this approach and understand its implications better than most. Our partnerships in Australia, South Africa, Venezuela, the Argentine, and other countries, are perhaps best illustrated by Mexico, which is presently in the process of establishing its own automotive industry. There a requirement has been established that all automobile manufacturers in Mexico must build their engines in Mexico, and include enough additional components from local sources so that at least 60 percent of the content of the finished vehicle comes from Mexico. Only last year the Mexican content for Chrysler cars assembled and sold in Mexico averaged 22 percent. Last May 1, it commenced at a 60-percent average.

This percentage can be raised at any time, by any country, and on a regular basis until it reaches 100 percent, as it has for all practical purposes in Brazil, or 90 percent, as it has in Argentina, or 95 percent, as it will be in Australia by 1970.

We at Chrysler have no quarrel with countries that find it to their advantage to establish local content requirements, understanding a perfectly natural desire for each to have its own automobile industry, for the economic stimulation and stability it can bring. The investment in facilities, tooling, and manpower needed to meet these local content requirements is an accepted part of the cost of doing business in the world market. However, in this context it is most encouraging to note the consistently constructive attitude of Canada toward her automobile industry.

Important is it to remember that while we talk of 8, 9, and 10 million car years in the domestic U.S. market, actually it is to overseas and world trade that we must look for the great percentage gains of the future. And, this fact is already well on its way.

Chrysler intends to leave no stone unturned to insure its part in U.S. leadership in this regard. It is right, it is healthy for our total economy, and employment and it is infinitely American.

In 1936 Canada did become one of the first countries to require a percentage of local or Empire content as it was then known. But even though her market has grown fourfold since then, Canada has never increased the required local content beyond 65 percent for cars and 50 percent for trucks. In 1946, in a move to achieve lower prices, Canada actually lowered the local content requirement for cars to 60 percent—a most modest content requirement in view of the manufacturing capability of Canada and her balance-of-payments problem. And that requirement has not been increased in the postwar period.

The same constructive attitude has been apparent in her tariff policies on key parts and components requiring high tooling investments. As a result of these sound economic programs, and the substantial growth of her industry, cars produced in Canada sell for only about 8 to 9 percent more than they do in the United States.

We believe that the proposed trade agreement is the logical next step in a continuing policy of trade relations between the United States and Canada. It provides vehicle manufacturers and parts suppliers in both countries with the opportunity to market their products on both sides of the border without encumbering duties.

The agreement was entered into by Canada only after she received assurances from the Canadian vehicle manufacturers which were designed to protect and stimulate Canada's much smaller and less developed manufacturing industries. The assurances are natural, understandable, and perfectly straightforward and simply say that the manufacturers will continue to manufacture and to buy in Canada as high a percentage of the value of the vehicles sold by them in Canada as they did in the base year, plus an additional amount.

The additional business to be placed in Canada—\$260 million in—by 1968—will not, in view of the rapid growth of the Canadian market, result in any substantial change in our present half-billion-dollar-a-year favorable balance of trade with Canada in motor vehicles and parts.

And the other side of the coin, unhappy to visualize, is a trade war between Canada and the United States. Canada could achieve approximately the same effect on her 1966 United States trade balance simply by increasing the Canadian content requirement from 60 percent to 80 percent. The consequent restriction of industrial growth on both sides of the border is precisely what neither the automobile business nor parts suppliers would want. It would inhibit the long-term sourcing flexibility inherent in the proposed agreement and it would be the antithesis of the high aims of the agreement itself.

It should be noted that under the agreement the total United States and Canadian market will be available without duty to parts suppliers in each country. And the economy of high volume will induce faster growth of the whole North American automobile market as it reduces costs on each side of the border.

Finally, a commitment was made to continue to assemble as high a proportion of vehicles compared to sales in Canada as the manufacturer did in the base year. This simply protects Canada from the possibility of losing assembly plant capacity to basic manufacturing capacity.

Chrysler has long believed in the coming of a day when good business judgment in both countries would bring about an end to some of the wasteful duplication inherent in the historical plan which has been going on since the days of Maxwell-Chalmers Motor Co. of Canada, the pre-1925 predecessor of Chrysler Canada, Ltd.

Lynn Townsend, the president of Chrysler, strongly stated this position well over a year ago, pointing to the rules of economic logic and good sense to recognize the advantages of treating the two countries as a natural market of vast size and potential—unbroken by artificial barriers.

I should like to put this statement in context by pointing out the great value of a volume production business such as that of making automobiles.

By pointing out the great advantage of mass production.

By pointing out that the agreement is an example of wise-taking advantage of the right opportunity, in the right industry, with the right country, at the right time.

It has long been our belief that the agreement would form not only a firmer base for the assurance of jobs on both sides of the border but also an increase in jobs—first in the United States and concurrently in Canada.

Chrysler Corp., strongly supports the historic trade agreement already reached by the United States and Canadian Governments, and we urge prompt passage of the implementing legislation.

We appreciate very much not only being able to make the statement but also, if we can, to be helpful regarding questions which may occur.

The CHAIRMAN. Thank you, Mr. Kendall.

Senator Douglas?

Senator DOUGLAS. Mr. Kendall—

Mr. KENDALL. Yes, Senator Douglas.

Senator DOUGLAS. Is Mr. Ron W. Todgham the president of your Canadian subsidiary?

Mr. KENDALL. Yes, he is.

Senator DOUGLAS: You have heard the statement which he made in Calgary?

Mr. KENDALL: I have heard the comment on that here. I knew nothing about the statement before, but I have heard it here today.

Senator DOUGLAS: Was it accurate? Did the Toronto Globe and Mail give an accurate account?

Mr. KENDALL: I don't know what he said.

Senator DOUGLAS: I will read you what he said if you don't know what he said. This is taken from the Toronto Globe and Mail Wednesday.

Mr. KENDALL: I know what it says that he said.

Senator DOUGLAS: I want to say: If he didn't say it, would you file a statement for the record; and if we don't get such a statement, we will assume that he did say it.

Mr. KENDALL: Sure. I would like to assume that he said it.

Senator DOUGLAS: Now, is that going to be the policy of Chrysler Canada?

Mr. KENDALL: As I understand it, Senator Douglas, this is what he was doing. He was in Calgary talking to dealers about the business of Chrysler Canada with the dealers and their relationship at the moment, at the present time. Whilst at the moment we do think that the pricing policy in Canada will probably be very close to what it has been, we also assume, Senator Douglas, that in the long run that prices will be equalized between Canada and the United States.

Senator DOUGLAS: But in the immediate present, what is happening? You pay no tariff on vehicles or parts sent into Canada to your Canadian subsidiary for sale there.

Mr. KENDALL: That is right, and haven't since the 16th of January.

Senator DOUGLAS: That is right. And he said, "As for a drop in Canadian prices, this is definitely out."

Mr. KENDALL: I don't know what time he was talking about, but at the present let's say that is correct.

Senator DOUGLAS: He is reported to have said, "Canadian car buyers will not receive any price reduction as a result of the Canadian-United States Automotive Trade Agreement."

Then he went on to say that he hopes the Canadian auto makers this year "will be able to hold their 1965 levels" although hinted that even this may be impossible.

Mr. KENDALL: Well, I don't know about—

Senator DOUGLAS: You also heard me read the passage from the Detroit News for September 5?

Mr. KENDALL: Yes.

Senator DOUGLAS: Saying that there was going to be a boost in American prices?

Mr. KENDALL: Yes.

Senator DOUGLAS: When do your new models go on sale?

Mr. KENDALL: Either the 30th of September or the 1st of October.

Senator DOUGLAS: That is only 2 weeks away.

Mr. KENDALL: Yes, sir; that is correct.

Senator DOUGLAS: Do you know what policy your company is going to adopt?

Mr. KENDALL: No, sir; we have made no pricing decisions at all.

Senator DOUGLAS: When do you think you will adopt a policy?

Mr. KENDALL. If we follow tradition, we will do it, obviously, between now and then. It will be pretty close to then, I would say.

Senator DOUGLAS. That is a very cautious statement that you will do it between now and then.

I think that is true. Let the record stand on that.

Mr. KENDALL. I was trying to answer the question exactly as you asked it.

Senator DOUGLAS. You haven't made it yet, though?

Mr. KENDALL. Pardon?

Senator DOUGLAS. You haven't made it yet?

Mr. KENDALL. No, sir; we have not.

Senator DOUGLAS. And you don't have the slightest idea what will be done?

Mr. KENDALL. No, sir; I do not.

Senator DOUGLAS. If a general of the Army was to go into battle with no plans made 2 weeks prior to combat, he would be under great suspicion by military authorities.

Mr. KENDALL. Well, Senator Douglas, you will just have to take it as I say. I just don't know.

Senator DOUGLAS. Now, Mr. Todgham spoke before the St. Thomas Board of Trade of Canada on January 26 of this year, and he made, so I am informed, the following statement:

Debunking the misconception about the fact Mr. Ron W. Todgham, president of Chrysler Canada, Ltd., reiterated there was nothing in it that would make possible any immediate price cuts.

Do you know whether he made that statement?

Mr. KENDALL. No, sir.

Senator HARTKE. Will the Senator yield at that point?

Senator DOUGLAS. Yes.

Senator HARTKE. I will be glad to have the entire statement of the Chrysler Canada Ltd. editorial material which was prepared for the news columns inserted in the record here if you want to have it.

Senator DOUGLAS. If you will request unanimous consent that that be printed, I will not only not object but applaud.

Senator HARTKE. I would like to make such a request, but I would like to hold onto it until such time as I can ask certain questions on it. But I would like to have it inserted at this place in the record.

I want to ask unanimous consent that the statement be placed at this point in the record.

The CHAIRMAN. Without objection.

Senator HARTKE. Can we have it included immediately following this testimony and then it will fall in the proper place to ask this question.

(The document referred to follows:)

NEWS FROM CHRYSLER CANADA, LTD., PUBLIC RELATIONS DEPARTMENT,
WINDSOR, ONTARIO

ST. THOMAS, ONTARIO, January 26, 1965.—The impression that the recently signed Canada-United States automotive trade agreement means free trade is absolutely false, Ron W. Todgham, president, Chrysler Canada, Ltd., said here tonight.

Speaking at the annual meeting of the St. Thomas Board of Trade, Mr. Todgham noted that the agreement signed on January 16 by Prime Minister Pearson and President Johnson was a step toward free trade but "did not

create free trade in automobiles and automobile parts between our two countries."

The free trade idea is only one of four basic misconceptions concerning this pact, Mr. Todgham said. The others are: that it provides for the importing of American-made automobiles duty free into Canada in unlimited numbers; that there is no longer any reason why automobiles should cost more in Canada than they do in the United States; and that the Government is dropping \$50 million in uncollected tariffs into the pockets of the car manufacturers.

The pact did not eliminate all tariffs on automobiles and automotive parts, Mr. Todgham pointed out. What it did establish was a set of conditions under which tariffs would be removed, provided Canadian motor vehicle manufacturers met certain commitments, he said.

Mr. Todgham said that the first commitment involves maintaining the ratio of Canadian production to the net dollar sales value of the vehicles. As an example, he suggested that if, during the base year, which was the 12 months ending July 31, 1964, a company's Canadian sales were \$100 million, of which \$95 million represented Canadian production, then its ratio would be 95 percent domestic and 5 percent import. This ratio would have to be maintained in future years. If its sales of imports exceed 5 percent, duty must be paid on each unit above this 5 percent.

Under the next commitment, the manufacturer has to maintain the level of the Canadian value added (Canadian content) also in accordance with his performance during the base year. In effect this provides a floor, expressed in dollars, for Canadian content.

"As an example, if a manufacturer's Canadian value added amounted to \$75 million during the base period, then this dollar amount would have to be maintained each year," Mr. Todgham said.

The third commitment requires a manufacturer to increase Canadian value added as sales in Canada increase. If, during the base period, a company sold 100,000 vehicles in Canada, and in the following year upped this figure by 5,000, then a proportionate amount of the cost of production of the additional 5,000 units would have to represent Canadian value added. "In the case of Chrysler, this is 60 percent," Mr. Todgham noted.

The last, and perhaps the toughest commitment is the individual undertaking given by each Canadian manufacturer to increase his annual level of Canadian value added by a very substantial amount during the next 3 years, Mr. Todgham said.

"Each manufacturer's undertaking in this regard is confidential, known to himself and the Government," Mr. Todgham said. "But when you add them all together, they come to a total of \$260 million for the automotive industry in Canada."

The Canadian motor vehicle manufacturers, collectively, have 3 years to boost their Canadian production by this amount, but once at this level, must maintain it on a yearly basis, he added.

Debunking the misconceptions about the pact, Mr. Todgham reiterated that obviously its terms did not provide free trade; its fixed ratio of Canadian production to Canadian sales prevented unlimited importation of American-made automobiles duty free; there was nothing in it that would make possible any immediate price cuts.

Regarding the \$50 million the industry is said to be picking up by not paying tariffs, Mr. Todgham made it clear that the Government is still collecting tariffs on many automobiles being brought over the border.

"Under the terms of the duty remission program in effect from late 1963 to the date of this current agreement, Canadian carmakers had worked hard to boost exports to an extent that already had considerably reduced their duty payments," he said. "Consequently the final removal of tariffs, where applicable, has not made that much difference."

In praise of the agreement Mr. Todgham said it should enlarge the total North American market, increase employment and manufacturing activity on both sides of the border, improve production efficiency, and make us more competitive in the world market.

"From a purely Canadian point of view, anything that can inject \$260 million of fresh, new manufacturing into the Canadian scene over a period of only 3 years, with all the plant expansion and construction, additional Canadian sourcing and additional Canadian employment that this entails cannot help but be good," he declared.

"This Canada-United States automotive trade agreement represents a dynamic economic force adding vital thrust to the upward growth of the Canadian economy as a whole," he concluded.

Senator DOUGLAS. Now, is American Motors going to testify? I hate to do this to American Motors, a very gallant company, but in anticipation of my cross-examination I may say that in the Toronto Globe and Mail for January 19, 1965, Mr. E. K. Bromberg, president of the Motor Vehicle Manufacturers Association and of American Motors Canada made, according to the newspaper, the following statement:

The auto manufacturers have been quick to discourage any thought of significant cuts in Canadian car prices, Mr. E. K. Bromberg, president of the Motor Vehicle Manufacturers, said, and suggested in light of other factors prices were likely to increase in Canada.

If there is an error in this, I would appreciate if Mr. Bruce Macdonald would correct that.

Now, if you have these statements by the head of Chrysler Canada and Bromberg, head of American Motors, Canada, almost immediately after the agreement was signed and the Canadian orders and council established, is it not clear that there was an agreement between the manufacturers and the Canadian Government that there would not be any reduction in prices to the Canadian consumer?

Mr. KENDALL. No; it isn't clear that there was any agreement.

Senator DOUGLAS. Understanding?

Mr. KENDALL. Or understanding or anything else.

Senator DOUGLAS. Is it just fortuitous that they should all—

Mr. KENDALL. No.

Senator DOUGLAS (continuing). All four reach this agreement, just accidentally?

Mr. KENDALL. No, just accidentally if you want to put it that way.

What happened was that these people were commenting on the agreement, but there was no agreement as to what they were saying.

Senator DOUGLAS. Well, normally if you take off \$50 million a year in duties, wouldn't you expect that competition would result in some reduction in price?

Mr. KENDALL. Well, I don't know. As a matter of fact, Senator Douglas, of this \$50 million, perhaps \$12 million was Chrysler Canada. As you might know, it is very hard to allocate what happens to final costs among a number of things affecting costs but that \$12 million is a drop in the bucket.

For instance, in relation to the increase in costs as a result of the labor contracts of last year and the labor contract in Canada, which was, as a matter of fact, going on just about that time, January and February.

What I am trying to point out is that it is very difficult to allocate what this so-called somebody said windfall duty savings does or does not do. I am trying to be enlightening about the thing and not parry any question.

Senator DOUGLAS. Well, the Senator from Indiana, I believe, and I put our heads on the block in supporting the tax cut. We had solemn assurance that there would be a reduction in car prices in the United States.

Now, you have seen this article in the Detroit News predicting an increase. You have heard the solemn testimony by the heads of the other companies which you reaffirmed for Chrysler. No decision has been made. When your prices come out will you send a telegram to this committee?

Mr. KENDALL. Sure; of course we will.

Senator DOUGLAS. Comparing the prices on the new models with prices on the old?

Mr. KENDALL. Of course we will. I also heard Mr. Roche's testimony about the article of Mr. Armstead in the Free Press, and I read it as well, and there have been predictions both ways, Senator Douglas.

Senator DOUGLAS. I hope the Free Press is correct.

When this agreement was first presented, I thought it was a very excellent move. I believe in broadened markets. I suppose I am a free trader at heart, and I am not ashamed to be one because I think the broader the market the greater the division of labor and this seems to me to be economically advantageous, especially if we can remove some of the political difficulties between Canada and the United States. But I must say that as the testimony in these last 2 days has piled up, and I have certainly not wanted to be a prosecutor in any sense on this because I have started out in favor of the agreement, I must say I have more and more doubt. The Canadian consumers are not going to benefit. I doubt whether the American consumers will benefit as a result of the tax cuts which we gave the industry. It is extraordinary that this went through with the U.S. State Department ignorant of what was happening. The increased investment, the increased Canadian component in value turned out, in the absence of the price cut, and disregarding the growth factor, will have to come out of increased Canadian exports of parts to the United States, and the diminution of American production.

Senator HARTKE. Will the Senator yield at that point?

Senator DOUGLAS. Yes.

Senator HARTKE. The question that concerns me, and I think maybe the witness can help with the answer, is this. If there is not going to be any cut in prices of the automobiles to the consumer in Canada, and if there is to be an equalization of the cost—which in substance means that there probably would be an increase in the prices of the automobiles in America—just where is the advantage of this incentive plan toward greater benefit to everybody? Where does the benefit go?

Senator DOUGLAS. The Senator from Indiana raised a very interesting question. I wonder whether the tail might not wag the dog, if the high Canadian costs might not serve to raise the American price rather than the lower American costs lowering the Canadian. It is clear the Canadian price is not going to go down. But you shouldn't ask me that question. I think you should ask the witness.

Senator HARTKE. I didn't mean to interrupt the Senator.

Senator DOUGLAS. That is all right.

Mr. KENDALL. I came here, Senator Hartke, as I am sure you know, hoping to be of assistance.

Senator HARTKE. That is what I was wondering. I mean this is a—

Mr. KENDALL. Now, look here, in the first place, the great advantage, Senator Douglas, Senator Hartke, and Mr. Chairman, as we have envisaged it, is by an integration of the business of production of automobiles between the two countries. Now, let me illustrate quickly.

Chrysler is the smaller of the three whom you have heard so far, and as you all know, it takes a good deal of money to plan plant production. We have published recently, and I don't want to be too long about this, Senator, but we have published recently a registration statement in which we are indicating and saying that our commitments from the United States abroad last year, this year, and the coming year are something in the order of a half billion dollars a year for increased plant. Of that, 25 percent or \$125 million is to be overseas. A portion of that will be in Canada, but not a large portion.

Now, this means that with the freedom from duty, we may find we will be able to ship new cars and equipment for new cars back and forth between plants and get the greatest possible utilization of plant capacity and purchase of material on both sides of the border and integrate it.

For instance, as you know, Senator Hartke, it isn't so terribly far to our Windsor plants from Fort Wayne or even from Evansville. If you will bear with me, we can integrate our purchases with a great deal more facility and arrive at lower production costs with a great deal more ease than we could do either under the remission plan previously or without anything.

Senator HARTKE. I don't want to interrupt.

Mr. KENDALL. Go ahead.

Senator HARTKE. But the point is I am still at a loss. My understanding is that there is, according to all the evidence we have here so far, no immediate price cuts in the offing in Canada.

Mr. KENDALL. That, as Mr. Roche said, and I think Mr. Secret said as well, that is because in the changeover, and it creates a good deal of a problem, and I am sure you both know this, particularly you, Senator Hartke, because you are familiar with the business, the tooling, the changes which have been made take time to achieve, and we don't have, as we had hoped to have before now, the assurance of the legislation. So that our plans have not really—the result of our planning hasn't been brought into effect.

Senator DOUGLAS. If we were to ratify this, would you make a pledge that you would give a retroactive price cut in Canada to the purchasers of your automobiles?

Mr. KENDALL. Of course not. No.

Let me finish, Senator, because there are too many other factors involved, and you know it.

Senator HARTKE. Let's come to another question. Forgetting Canada for a moment and talking about our consumers here, will the ratification of this pact result in lower prices in America?

Mr. KENDALL. I would hope so, but I don't know really—you will have to bear with me because this is a very involved business, pricing.

Senator HARTKE. Let me say I want to agree with you. It is very involved, and that is why I would hope that the chairman would not put too much of a restriction on us trying to find the answers to these questions, and I appreciate the courtesy that has been extended to us in this field. But that is why I didn't want to be rushed this morning.

Mr. KENDALL. It is impossible to answer the question in any other way than saying this, that with the integration of an industry as between the subsidiaries of the American companies and the American companies themselves, there is anticipated by us greater efficiency, effectiveness, and cost saving.

Senator DOUGLAS. But not a tax saving?

Mr. KENDALL. Now, as you know, Senator Douglas, this is the most highly or as highly competitive an industry as there is in the United States if not in the world, and prices are surely competitive.

Senator DOUGLAS. I have always been told it is highly competitive, but here you have all four companies adopting a common policy of not cutting prices though costs have been reduced by 17½ percent, and indeed the heads of at least two companies declaring this in advance, immediately upon the issuance of the order in council.

We might not be able to prove collusion in a court, but you could certainly prove substantial identity of belief in action.

The definition of intent is somewhat difficult to establish. You are a very skilled attorney who has served our Government, I believe, in the Treasury.

Mr. KENDALL. Yes, sir.

Senator DOUGLAS. So you must know.

But overlooking the camouflage, you certainly don't get identity of action. And as Abraham Lincoln once said in dealing with my namesake, Stephen A. Douglas, when you had Buchanan and Taney and Stephen A. Douglas all acting in a given way it was only legitimate to conclude that they knew what was in each other's minds.

The CHAIRMAN. Any further questions?

Mr. KENDALL. Who is quoting Lincoln, you or Senator Dirksen?

Senator DOUGLAS. I am.

Senator CARLSON. Just one comment. I think you have helped me very materially. I think your statement at least suggests that our industry may be curtailed in the expansion of its sales, which I assume would have its effect on the production of cars and labor if these other countries do as you state Mexico has done, by requiring that the components of a car be increased to 60 percent. It was 22, and some of these countries have gone up to 90 and 100 percent. I assume in this arrangement we are making with Canada, we can expect to have rather free trade through this great area, and it is a great field. Wouldn't that have some effect?

Mr. KENDALL. You are absolutely correct, Senator Carlson. These foreign restrictions make for a great deal of difficulty, which the American automobile industry as a whole is trying to overcome. We at Chrysler without any illusion are on our own, because we are 5 years, a little better, 10 years old at this foreign business. We have been going into it with foreign partners. I won't belabor this because it is

a long and interesting story, but with foreign partners we have been even minority stockholders in Spain or in Mexico, with certain legal rights of our minority on the board to control certain important action. But we have had to do a great many things under inhibitions which would not be true, and I am talking obviously only about Chrysler, as far as Canada is concerned under this agreement.

Senator CARLSON. That is all, Mr. Chairman.

The CHAIRMAN. Senator Hartke?

Senator HARTKE. Let me ask you this: I have here before me an article from the Wall Street Journal of Wednesday, March 31, of this year. Before I ask you about this, what is the total production now of automobiles by Chrysler on any basis?

Mr. KENDALL. Just a minute.

Senator HARTKE. Roughly.

Mr. KENDALL. Roughly? I can give you the figures for the model year just done.

Senator HARTKE. Yes, that is fine.

Mr. KENDALL. Was 1,362,000 in the United States and in Canada, 122,000.

Senator HARTKE. Now, in your exports from Canada, to whom do you export?

Mr. KENDALL. Well, quite a few places. We send Dodge trucks to England. We send some exported trucks to India. We send automobiles to India. About a thousand to British Commonwealth countries. It is mostly to the United States.

Senator HARTKE. Now, of that 122,000, what portion of that was kept in Canada, do you know, and sold in Canada?

Mr. KENDALL. That was our passenger car sales in Canada.

Senator HARTKE. What was the production of passenger cars there?

Mr. KENDALL. Approximately the same.

Senator HARTKE. Now, I think Senator Carlson has raised a question related to this article to which I have previously referred, by Jack Whitten; under dateline from Toronto. He said:

Chrysler's Canadian unit plans to export 80,000 vehicles to the United States in calendar year 1966. Chrysler of Canada Limited is planning to build 80,000 vehicles in Canada for export to the United States in calendar year 1966, the company spokesman said.

Mr. KENDALL. He is wrong about it. Our plan for the 1966 model year, and we have said this, is 70,000 automobiles to the United States.

Senator HARTKE. Well, I am not wrong?

Mr. KENDALL. No, the article is.

Senator HARTKE. I am reading.

Mr. KENDALL. No, I didn't say you were. I said he was.

Senator HARTKE. I am reading the article. The article may be wrong. But let me read further.

The plan is contingent on congressional approval of the automotive free trade agreement between Canada and the United States, a spokesman said. He added he didn't have any information what type of vehicles would be produced. A parts supplier of Chrysler of Canada, Ingersoll Machine & Tool Co., has said Chrysler Co. was planning to build 70,000 Vallants in Canada for export to the United States in the 1966 model year.

Mr. KENDALL. That is correct, they are correct. They are called Valiants, but when we get them over here they are called Darts. It doesn't make any difference but that is correct. They are going to send them over here.

Senator HARTKE. But is this production which heretofore would have been done in the United States?

Mr. KENDALL. Yes.

Senator HARTKE. The natural question which arises in my mind, and maybe you can help me understand this, is where are they not going to build them here? Are you going to be able to increase your sales that much?

Mr. KENDALL. Sure. This is the integration that I have been trying desperately to indicate. We are going to build in the Canadian plant at Windsor, we are going to assemble in the Canadian plant in addition to other automobiles 70,000 cars which we will send into the United States hopefully duty free for sale to Americans. I think I would like to offer in the record a table here which indicates our comparison of what we intend to do, and I think it will help clarify this with you.

Senator HARTKE. If you have an explanation for it, this is fine.

Mr. KENDALL. It isn't an explanation. It is what we have been trying to do to help our production.

Senator HARTKE. All right, to help your production.

Is this a deduction of this much production which ordinarily would have occurred in the United States?

Mr. KENDALL. It is added to.

Senator HARTKE. Is it anticipated that you are going to have an additional sale of 70,000 of this type of vehicle in the United States?

Mr. KENDALL. No, not exactly that. We are going to make all of this vehicle, the Dart, in Canada rather than making it and upsetting the mix in the production line, we are going to clarify the mix in the production line to increase the efficiency of some production line in the United States, to which we will be adding other automobiles.

Senator HARTKE. Let me ask the corollary, then. Are you going to then produce automobiles in the United States for shipment to Canada which you heretofore have not been making in Canada?

Mr. KENDALL. Yes, sir.

Senator HARTKE. All right. How many of those is anticipated and what is it?

Mr. KENDALL. May I give you this?

Senator HARTKE. I will be glad to have it.

Mr. KENDALL. This will help you, I think, and I would like to offer it as a part of what we are saying. If you will look, it is a comparison, Senator Hartke, of the 1965 model year with the proposed 1966 model year.

It is a balance. You will see that at the top there were 137.4 million Canadian imports from the United States in 1965.

Next year we will expect that to increase to 216. The Canadian exports to the United States in 1965 model year are 50.7, and they will increase to 181.8 in the following year.

Notice that exports of auto parts, both from Chrysler and its independent U.S. parts suppliers, to Canada will increase very substantially—from 117 million Canadian dollars in 1965 to 157 million in 1966. But parts from Canada to the United States will rise only slightly—from 50.7 to 58.8 million.

(The document referred to follows:)

CANADIAN-U.S. BALANCE OF TRADE (PAYMENTS) FOR CHRYSLER CORPORATION

MILLIONS OF CANADIAN DOLLARS
Passenger cars and components only

	1965 Model Year	1966 Model Year
Canadian Imports from U.S.	137.4	216.4
Parts and components	117.0	157.4
Chrysler produced	80.4	106.6
Supplier produced	36.6	50.8
Vehicles	20.4	59.0
Less vehicle components made Canada (engines)	0	2.5
<u>Net vehicle imports</u>	<u>20.4</u>	<u>56.5</u>
<u>Net Canadian Imports from U.S.</u>	<u>137.4</u>	<u>213.9</u>
Canadian Exports to U.S.	50.7	181.8
Parts and components	50.7	58.8
<u>Less parts made in U.S.</u>	<u>4.8</u>	<u>5.2</u>
<u>Net parts and components</u>	<u>45.9</u>	<u>53.6</u>
Chrysler produced	32.8	34.5
Supplier produced	13.1	19.1
Plus vehicles	0	123.0
Less U.S. content in vehicles	0	52.0
<u>Net vehicles</u>	<u>0</u>	<u>71.0</u>
<u>Net Canadian Exports to U.S.</u>	<u>45.9</u>	<u>124.6</u>
Difference--U.S. Favorable Balance of Trade	<u>91.5</u>	<u>89.3</u>

Senator HARTKE. I think I am beginning to see. What is going to happen here is quite a shift.

Mr. KENDALL. You see what we are trying to do.

Senator HARTKE. Yes; I see what you are trying to do, and I am more disturbed than ever. If this were a free trade agreement, we would not have all these complications, is that not true? Perhaps to start out here, we have to go back to this letter here of our undisclosed friend, Mr. Todgham.

Mr. KENDALL. Ron Todgham, the president of Chrysler of Canada. Senator DOUGLAS. If the Senator from Indiana will read that; I have not seen this.

Senator HARTKE. This is news from Chrysler, Ltd. It is out of the public relations department.

Senator DOUGLAS. Of Canada.

Senator HARTKE. January 26 from St. Thomas:

"The impression that the recently signed Canada-United States automotive trade agreement means free trade is absolutely false," Ron W. Todgham, president, Chrysler Canada, Ltd., said here tonight.

Speaking at the annual meeting of the St. Thomas Board of Trade, Mr. Todgham noted that the agreement signed on January 18 by Prime Minister Pearson and President Johnson was a step toward free trade but "did not create free trade in automobiles and automobile parts between our two countries."

The free trade idea is only one of four basic misconceptions concerning this pact, Mr. Todgham said. The others are: that it provides for the importing of American-made automobiles duty free into Canada in unlimited numbers; that there is no longer any reason why automobiles should cost more in Canada than they do in the United States—

this is a misconception—

and that the Government is dropping \$50 million in uncollected tariffs into the pockets of the car manufacturers.

"The pact did not eliminate all tariffs on automobiles and automotive parts," Mr. Todgham pointed out. "What it did was establish a set of conditions under which tariffs would be removed, provided Canadian motor vehicle manufacturers met certain commitments," he said.

Mr. Todgham said that the first commitment involves—

and this is the heart of the problem to which we have just addressed ourselves—

involves maintaining the ratio of Canadian production to the net dollar sales value of the vehicles. As an example, he suggested that if, during the base year, which was the 12 months ending July 31, 1964, a company's Canadian sales were \$100 million, of which \$95 million represented Canadian production, then its ratio would be 95 percent domestic and 5 percent import. This ratio would have to be maintained in future years. If its sales of imports exceed 5 percent, duty must be paid on each unit above this 5 percent.

Under the next commitment, the manufacturer has to maintain the level of the Canadian value added—

he then puts a parenthesis, which I am glad he did, which is the so-called Canadian content with which we are so familiar in our trade negotiations.

Under the next commitment the manufacturer has to maintain the level of the Canadian value added, also—

in accordance with his performance during the base year. In effect, this provides a floor—expressed in dollars—for Canadian content.

"As an example, if a manufacturer's Canadian value added amounted to \$75 million during the base period, then this dollar amount would have to be maintained each year," Mr. Todgham said.

The third commitment requires a manufacturer to increase Canadian value added as sales in Canada increase.

This is what if you will recall this morning they testified that it would decrease—the Commerce Department testified it would be a decrease in the Canadian content but according to Mr. Todgham:

The third commitment requires a manufacturer to increase Canadian value added as sales in Canada increase. If, during the base period, a company sold 100,000 vehicles in Canada, and in the following year upped this figure by 5,000, then a proportionate amount of the cost of production of the additional 5,000

units would have to represent Canadian value added. "In the case of Chrysler, this is 60 percent," Mr. Todgham noted.

"The last, and perhaps the toughest commitment is the individual undertaking given by each Canadian manufacturer to increase his annual level of Canadian value added by a very substantial amount during the next 3 years," Mr. Todgham said.

"Each manufacturer's undertaking in this regard is confidential, known to himself and the Government," Mr. Todgham said.

Senator DOUGLAS. This has since come out in the publishing of the letters forced in the Canadian House of Commons by Mr. Diefenbaker's party?

Mr. KENDALL. And his \$33 million for Chrysler.

Senator HARTKE. Mr. Kendall, when you add them all together they come to \$240 million.

Mr. KENDALL. Canadian dollars.

Senator HARTKE. I am just reading from a document.

Senator DOUGLAS. That is all right.

Senator HARTKE. I am just taking Chrysler's words for it.

Senator DOUGLAS. Let it be said that there seems to be an error.

Mr. KENDALL. No; it is the difference between Canadian dollars and American dollars is what it is.

Senator DOUGLAS. Chrysler Canada was not incorrect.

Mr. KENDALL. Chrysler Canada was correct and Chrysler United States was correct.

Senator HARTKE. Canadian motor vehicles have 3 years, collectively, to boost their Canadian production by this amount. Once at this level they must maintain it on a yearly level here. Is that true?

Mr. KENDALL. Yes, sir.

Senator HARTKE. No such guarantee to America, was there?

Mr. KENDALL. No.

Senator HARTKE. What?

Mr. KENDALL. No.

Senator HARTKE. In other words, for this \$50 million worth of duty, we agreed to expand then by some \$240 million according to Senator Douglas, \$260 according to Mr. Todgham, we in the United States didn't get anything in return for this consideration, did we?

Mr. KENDALL. Well, we got one thing. We got duty-free integration of parts and automobiles, back and forth across the border, and I might add, Senator Hartke, our share, as you know, from the testimony and from the record \$33 million, I assume you know that a model year ends July 31, if our plans and if our economic conditions continue, at the rate they are now, our \$33 million added Canadian value which doesn't have to be achieved until 1968 under the letter will have been achieved within \$2 million of it by next July 31.

Senator HARTKE. Here is the point that the Senator from Illinois raised a few moments ago.

Debunking the misconceptions about the pact, Mr. Todgham reiterated that obviously its terms did not provide free trade; its fixed ratio of Canadian production to Canadian sales prevented unlimited importation of American-made automobiles duty free; there was nothing in it that would make possible any immediate price cuts.

Regarding the \$50 million the industry is said to be picking up by not paying tariffs, Mr. Todgham made it clear that the Government is still collecting tariffs on many automobiles being brought over the border.

"Under the terms of the duty remission program in effect from late 1963 to the date of this current agreement, Canadian car makers had worked hard to boost exports to an extent that already had considerably reduced their duty payments," he said. "Consequently the final removal of tariffs, where applicable, has not made that much difference."

Let me ask you this in that regard, Mr. Kendall. Is it true that you received \$7 million in rebates during that period?

Mr. KENDALL. I don't know what the figure is. It is about that.

Senator HARTKE. This is what the Treasury says.

Mr. KENDALL. Well, if the Treasury said so, as a former general counsel, I agree.

Senator HARTKE. And it is true that all the companies were receiving rebates under the duty remission program. Isn't that true?

Mr. KENDALL. They were receiving remitted duty; yes.

Senator HARTKE. Let me finish the rest of this in all good faith.

In praise of the agreement Mr. Todgham said it should enlarge the total North American market, increase employment and manufacturing activity on both sides of the border, improve production efficiency, and make us more competitive in the world market.

"From a purely Canadian point of view, anything that can inject \$260 million of fresh, new manufacturing into the Canadian scene over a period of only 3 years, with all the plant expansion and construction, additional Canadian sourcing, and additional Canadian employment that this entails, cannot help but be good," he declared.

"This Canada-United States automotive trade agreement represents a dynamic economic force adding vital thrust to the upward growth of the Canadian economy as a whole," he concluded.

Are you familiar with the employment picture in Canada today?

Mr. KENDALL. No; not familiar with it.

Senator HARTKE. Are you aware of the fact they practically have no unemployment?

Mr. KENDALL. Yes.

Senator HARTKE. So as far as employment is concerned, they are not in need of this for increased employment. If they have one thing it is full employment. They also have some inflation.

Mr. KENDALL. All right.

Senator HARTKE. And a tight money policy. That is in effect now, isn't that true?

Now, if they have that in effect up there, and you are going to add more employment up there, how is that going to alleviate their present situation?

Mr. KENDALL. I hadn't been looking at it from the point of view of alleviating their situation as much as I have been alleviating our own production and manufacturing situation.

Senator HARTKE. Let's come to this Canadian value added.

If you are going to expand your production there, the parts which are produced must either replace imported parts in Canadian motor vehicles or they must be exported, and in that case largely to the United States. Isn't that true?

Mr. KENDALL. It isn't really, I don't mean to be obtuse by my giving you a yes or no answer.

Senator HARTKE. All right, you explain it.

Mr. KENDALL. But the point about it is it is not so much the expansion of production over there, it is making more effective and more efficient production overall in both countries. You see, in this Cana-

dian assembly plant we had to assemble and I won't go into a great deal of detail, but because the Canadian purchasers of automobiles might want an Imperial or might want one model or another of our line, we had a mix in that plant, a mix of automobiles on the line which was somewhat ineffective and inefficient, as compared to what we are attempting to do with the 1966 model year as the result of integrating the two industries.

Senator HARTKE. Let me ask you then whether this is a correct statement in *Business Week*, issue of January 23, 1965, by an old friend of mine, Lynn Townsend, president.

Mr. KENDALL. I heard of him.

Senator HARTKE. He foresees the day when some automobile companies may decide to build their entire supply of certain basic components, frames, engines, transmissions, and springs in Canada.

Mr. KENDALL. Sure.

Senator HARTKE. So what you are really looking forward to here is complete modification of the entire automobile manufacturing process, is that true?

Mr. KENDALL. Not exactly that. Although I would not argue with one who was not only my president but used to live in your town. What we are really trying to do is to get ourselves flexible enough so that we can do what we want across the border.

Senator HARTKE. Let me come back to the question I asked a few moments ago as to whether those additional parts which are produced in Canada must either be replacing imported parts or else be exported to the United States.

So far as Chrysler is concerned it will not make any real substantial difference what you do with the parts that are manufactured, whether these higher cost items are shipped over and used in your American product or whether they are kept there. In either case it could meet your requirement of Canadian value added; isn't that right?

Mr. KENDALL. Well, partly that, and partly it must be a part which is—which meets the specifications which we need.

Senator HARTKE. Because it is an integrated operation, the Canadian producer there would try to produce parts that he really could export.

Mr. KENDALL. You mean the Canadian parts producer?

Senator HARTKE. Yes, because from the standpoint of Chrysler and the others, the big three as far as they are concerned, it won't make much difference whether a high-cost Canadian part is used in an automobile in the United States or whether it goes into the item which is using their dollar value for Canada, isn't that right?

Mr. KENDALL. I see what you mean. I don't think it is entirely correct, and what I would like you to do, if you don't mind, so you can see how the thing is planned out and I prepared this schedule that I just gave you so that it would be of assistance to you.

You will notice in comparison between the 1965 and 1966 model year, the Canadian imports from the United States go from the 137 to 216 millions in the 2 years, and on the parts, from 117 to 157 million. I broke out the Chrysler-produced and the supplier-produced, as you can see. The vehicles—by the way those vehicles, the \$20.4 million worth of vehicles exported to Canada in 1965, and this is in Canadian

dollars—those vehicles were the result of the strike in Canada last year and were imported over there. The net Canadian imports from the United States, 137.4, in 1965 will go to 213.9 in 1966.

But Canadian exports to the United States on parts and components of 50.7 in 1965 model year, rise only to 58.8 in the 1966 model year, less parts made in the United States, those are some engines which are going to be made in the United States and shipped over, 4.8, 5.2, so the net change in Canadian parts exports to the United States will be from 45.9 and 53.6 million.

Of those both the Chrysler-produced and the supplier-produced parts exports are approximately the same. When the movement of both vehicles and parts in both directions is taken into account the balance of payments comes out approximately the same, 1966 compared with 1965.

By the way, I have got some figures on balance of payments, too, if you want them.

Senator HARTKE. But the point still remains—

Mr. KENDALL. Excuse me, go ahead.

Senator HARTKE. The point still remains that to people like Chrysler, GM and Ford, how you use, how you interchange all of these parts in order to obtain your quota on the Canadian value added makes no difference, isn't that right? This is the heart really, of why this is a good program for you and still complies with what Canada wants to do?

Mr. KENDALL. This isn't the heart, this is only part of it, Senator Hartke. The heart of it is this greater flexibility.

The undertaking of Chrysler Canada, Ltd., was to increase the Canadian value added in its manufacturing operations by about \$33 million by 1968. To illustrate how this one-time commitment can readily be absorbed without significantly disturbing the U.S. balance of payments, let me say that during this model year 1966 Chrysler will have accomplished its \$33 million commitment. At the same time, the favorable balance of trade of Chrysler United States with Canada will be affected only to the extent of \$2.2 million. The favorable balance in 1966 will be \$89.3 million, compared with \$91.5 million in 1965.

Importantly, with this one-time \$33 million commitment out of the way, the dominant position of Chrysler's U.S. exports over imports from Canada will be reasserted and the favorable balance will increase to more than \$100 million in 1967 and continue to increase annually beyond that, so long as the market continues to grow in Canada at approximately its present rate.

Senator HARTKE. Let's assume, though, you have to use this higher cost part in order to meet your quota, which you say you can do early. You are going to have to use it—

Mr. KENDALL. Go ahead.

You see what you really do is to get the lowest cost parts you can find wherever it is.

Senator HARTKE. That would be true if you had a completely open agreement here. But you make commitments here on the Canadian value added which must be held and which escalates.

Mr. KENDALL. Let me say this to you, I see exactly what you are driving at. The commitments which we have made we are able to live up to without sacrificing cost of parts to us.

Senator HARTKE. Yes; I agree with that.

Mr. KENDALL. This is the whole point, whether they are made in the United States or made in Canada.

Senator HARTKE. This is the point which causes the difficulty, because they can ignore cost in sacrifice to Canadian value added commitments. When you are talking about flexibility it is the same thing I am talking about, we are just using two different words. For the big three, this provides the type of flexibility whereby they can meet the requirements of the Canadian value added and at the same time go ahead and interchange in a manner which they cannot do at the present time.

By contrast, they are having to manufacture complete lines at the present time to meet the 60-percent quota or whatever it is.

Mr. KENDALL. This affects us more than it does the other two.

Senator HARTKE. That is right.

Mr. KENDALL. Because we make less than they do. We purchase outside parts more than they do.

Senator HARTKE. And the result of this can, however, be, that you don't get any overall reduction because the dollar value in the Canadian value added has to be held at that level and actually increased in the long run, doesn't it?

Mr. KENDALL. No, not necessarily.

Senator HARTKE. Under the agreement it has to.

Mr. KENDALL. That is right.

Senator HARTKE. You have agreed to it.

Mr. KENDALL. That is right, but the point about it, Senator, is that regardless of the commitment which we are going to make anyway, we don't sacrifice price or sacrifice cost, I guess, is a better way of putting it.

Senator HARTKE. Well, let me ask you about another matter quickly. How would this be as far as Volvo are concerned, do they come under this agreement?

Mr. KENDALL. I don't know the answer to that. I suppose Volvo—

Senator HARTKE. How about Renault?

Mr. KENDALL. Our Renault or any other foreign country couldn't unless they met the requirements of the Canadian Government.

Senator HARTKE. Wouldn't this be an added incentive for those people to go ahead and build plants in Canada instead of in the United States for shipment to the United States?

Mr. KENDALL. I wouldn't think so unless they were—I don't know what sort of an arrangement they could make with Canada, but I would be very surprised were they to do it.

Senator HARTKE, I think maybe it would be illustrative—I don't mean to interrupt your reading.

Senator HARTKE. That is all right.

Mr. KENDALL. I think it may be illustrative, their agreement would have nothing to do with the United States or any effect. It would have to do as between Italy or Germany or Japan or what have you and Canada.

Senator HARTKE. Yes.

Let me ask you one other question.

At the present time we know, of course, Canada does have a rather sizable trade with Communist China and also with Cuba, isn't that true?

Mr. KENDALL. I don't know about Cuba.

Senator HARTKE. I don't know what the size of it is, but they shipped some new buses down to Cuba not so long ago, at least it was so reported, and Canada is a part of the United Kingdom. We all agree with that. I might say for the record, Senator Douglas, with regard to GATT. I did talk to the British people, they are not very happy about this but they say it is a matter which they don't want to go into an international crisis.

Senator DOUGLAS. I suppose our help to the British pound has contributed to their acquiescence.

Mr. KENDALL. It is a part of the Commonwealth rather than the United Kingdom.

Senator HARTKE. Isn't it entirely possible some of these American buses and other motor vehicles which enter Canada duty free can find their way into Communist Cuba or these other countries?

Mr. KENDALL. It may be possible but it is not lawful from our standpoint.

Senator HARTKE. Well, is there anything in this agreement which would offer any protection?

Mr. KENDALL. No; but it is entirely outside of this agreement, Senator Hartke. You see, it is something that never was, really was, resolved, that wholly controlled American companies have a responsibility to my old Department of the Treasury with regard to shipment of goods in violation of the Trading With the Enemy Act. I would say this was highly unlikely.

Senator DOUGLAS. I didn't hear you, Mr. Kendall.

Mr. KENDALL. I would say this is highly unlikely, Senator Douglas.

Senator DOUGLAS. But not illegal?

Mr. KENDALL. I think it is illegal.

Senator DOUGLAS. Do you think that your Canadian subsidiaries are bound by the laws which govern the American company?

Mr. KENDALL. It is highly probable that they are. Not every—

Senator DOUGLAS. It is reassuring.

Mr. KENDALL. Not every legal question, as you and I discussed a few minutes ago, is readily soluble.

Senator DOUGLAS. I am very glad to see some of the representatives of the State Department in the room and I hope they are taking due cognizance of the fact.

Mr. KENDALL. I am not representing the State Department or the Treasury either.

Senator DOUGLAS. With respect to trucks or buses made by Chrysler or other companies sent to Canada and going to Cuba we have your testimony to say that in your judgment it is highly probable this would be illegal?

Mr. KENDALL. For what it is worth, you mean.

Senator DOUGLAS. Well, you are a very eminent legal authority. You are certainly not a prejudiced witness.

Senator SMATHERS. Any other question of this witness?

Senator HARTKE. Just one.

Take these 70,000 Darts that are coming in, how are they going to arrange, in other words, how are you going to arrange through Chrysler, Ltd., in the United States in order that you can bring those automobiles in here, are you going to be able to bring them in here cheaper than you can sell them in Canada?

Mr. KENDALL. No. They will be the same price.

Senator HARTKE. In other words, the production cost is going to be more than in the United States?

Mr. KENDALL. That is right. But other savings we would hope—anyway we are going to bring them in and distribute them in the normal course just as if we made them in Highland Park or any other one of our plants.

Senator HARTKE. The Prime Minister of Canada announced on April 7, 1965, that he was going to investigate reports that Canadian-built cars are going to be sold for less in the United States than they are sold for in Canada.

Mr. KENDALL. He hasn't so communicated that to me.

Senator HARTKE. Well, this is what he said on April 7, 1965.

Mr. KENDALL. We have no difficulty with that.

Senator DOUGLAS. If this were sold in the United States than at a lower price in Canada this would be dumping.

Senator HARTKE. That is right, and they have very severe antidumping laws.

Senator DOUGLAS. We have?

Senator HARTKE. They have.

Senator SMATHERS. All right, sir, let me ask you one question. Should these cars come in that Senator Hartke was talking about, are they going to have American-made tires or Canadian-made tires on them?

Mr. KENDALL. They will probably have some of each, depending upon which supplier we buy the tire from for the automobile that is coming in.

Senator SMATHERS. That is a pretty good legal answer.

Mr. KENDALL. Thank you.

Senator DOUGLAS. The right wheels are American tires and the left ones Canadian tires.

Mr. KENDALL. They will all be the same.

Senator SMATHERS. All right, sir, thank you, Mr. Kendall.

The next witness is Mr. Frederick C. Holder, Director of Corporate Planning, American Motors Corp., United States of America.

STATEMENT OF FREDERICK C. HOLDER DIRECTOR OF CORPORATE PLANNING, AMERICAN MOTORS CORP.

Mr. HOLDER. Mr. Chairma, my name is Frederick C. Holder and I am director of corporate planning of American Motors Corp. of Detroit, and I appear for the corporation in support of the bill under consideration, H.R. 9042.

We have filed with the clerk a compact statement, in keeping with the character of our company, outlining our position and with the Chair's permission we would like to have it incorporated in the record.

Senator SMATHERS. Without objection it will be made a part of the record.

Mr. HOLDER. I would like now merely to make a few broad observations in support of the bill.

Senator SMATHERS. All right, sir, you proceed.

Mr. HOLDER. We supported the bill in testimony before the House Ways and Means Committee on April 28, and there have been no changes in our position since that time.

We have continued our studies of the implications of the agreement, and our studies confirm our earlier judgment that the automotive trade program represents a logical, practicable, and a feasible approach for both countries.

We believe that the objectives of the agreement will be met without adverse effects on U.S. industry, and we believe further that the elimination of trade barriers will create new economic opportunities to the long range benefit of the citizens of both our countries. For these reasons, and for the logic which we have outlined in our statement, we express our support of H.R. 9042, and hope that the committee will make an early and favorable recommendation for its passage by the Senate.

Thank you very much, Mr. Chairman.

(The statement of Mr. Holder referred to follows:

STATEMENT BY FREDERICK C. HOLDER, DIRECTOR OF CORPORATE PLANNING,
AMERICAN MOTORS CORP.

My name is Frederick C. Holder. I am director of corporate planning of American Motors Corp., Detroit, Mich., appearing before this committee in support of H.R. 9042, the Automotive Products Trade Act of 1965.

I have a brief written statement which, with your permission, I should like to read. Copies have already been given to the clerk of the committee. Following that, I shall be glad to answer any questions the members of the committee may have.

AMERICAN MOTORS SUPPORTS 1965 TRADE AGREEMENT

American Motors supports the statement of principles and purposes set forth in the United States-Canadian Automotive Trade Agreement of January 18, 1965. For some years we have advocated the development of similar international trade bridges in all parts of the world, and we are encouraged by the economic logic of the new United States-Canadian trade approach.

By way of background, I might say that American Motors has 36 automotive and home appliance production operations outside the United States, in 26 countries around the world. Worldwide sales in our last fiscal year exceeded \$1 billion. I would like today to summarize for this committee certain attitudes and conclusions that we have developed over the years from our international business relationships.

UNDERLYING ECONOMIC OBJECTIVES

The local development of industry within a growth country ordinarily starts on a modest basis. It often requires the importation of many components from outside countries, until the market develops to the point that it is a matter of national interest to move toward more complete or even full integration of production. All benefits that accrued to outsiders during this growth period, in which they were shipping significant quantities of materials into the country, are not necessarily lost when the growth country decides on a policy of greater integration.

We feel that automotive trade relationships between the United States and Canada have undergone a similar evolutionary development. Originally, Canadian car production consisted of the assembly of parts and components imported from the United States. As a second step, in 1936 the Canadian Government

began to specify minimum Canadian content of Canadian-built cars in a program to develop their own automotive manufacturing resources.

With the substantial expansion of the Canadian automotive market in the 1960's, however, it became apparent that Canada faced both a problem and an opportunity.

The problem of which I speak was the increasing exchange imbalance resulting from continuing heavy importation of U.S.-made parts in an expanding market, particularly such vital components as major body stampings, engines, and automatic transmissions. The Canadian opportunity in the situation was the possibility of improving participation in its own growing domestic market, even though not necessarily by manufacture of those same components primarily responsible for creating the exchange imbalance. The Canadian duty remission program started in 1962 was an effort to meet the new situation and this has now been supplanted by the new United States-Canadian Automotive Trade Agreement.

Canada could most readily have followed the traditional method, adopted by many other countries, of raising the prevailing Canadian content requirement to a much higher figure. While this would have achieved a reduction in their automotive trade imbalance, it would, in our opinion, have been harmful to both the Canadian and United States automotive industries because of the inherent cost penalties. We feel, consequently, that the present plan, because it will encourage continued growth of the Canadian automotive industry, and because the United States will continue to share importantly in that growth, is a more appropriate solution to the Canadian automotive situation.

This new approach to automotive trade relationships between our two countries is, we believe, a most promising one.

Broad changes in trade relationships, of course, involve the possibility of temporary dislocation and readjustment. Until the potential of the new program can be fully realized, it is proper, in our opinion, for Canada to expect industry cooperation; first, in avoiding any reverse impact from the immediate removal of Canadian import duties and, second, in planning toward achievement of longer run objectives.

NATURE OF THE UNDERTAKINGS

The undertakings into which American Motors of Canada, Ltd., has entered with the Canadian Government are, we understand, similar to those entered into by other Canadian automotive manufacturers. They can be summarized as follows:

1. Base content

To maintain Canadian dollar content in vehicles produced in Canada in an amount no less than in the 1964 base year, subject to relief for decreases in volume.

2. Value added on increased sales

To increase "Canadian value added" by an amount equal to 60 percent of any increase in the total cost of production of vehicles sold in Canada.

3. Ratio

To produce in Canada vehicles with a net sales value in at least the same ratio to vehicles sold in Canada as existed in the base year.

4. Value added on added Canadian production

By model year 1968, to increase "Canadian value added" by a specified amount over the 1964 base year, plus the normal growth referred to in (2) above.

OBJECTIVES CAN BE ATTAINED

While we are satisfied that we can meet these undertakings, we have not as yet reached any specific decisions as to the method of doing so. Our studies show that there are several alternative routes, or a combination of routes. These are still under analysis and I am not in a position at this time to predict specifically which direction we will take.

It is possible for us to say, however, that we do not foresee any major change in our present overall operations, although there may be some limited readjustments between Canadian and American production assignments.

With respect to suppliers, I should point out that for some years before the new agreement was signed American Motors purchased automotive components on both sides of the border. In many cases these purchases have been made from companies operating in both countries.

Recent discussions with our major suppliers indicate that they are either in support of the new United States-Canadian Automotive Agreement or take a neutral position toward it.

In our opinion, the new United States-Canadian Automotive Trade Agreement is a sound economic approach for both countries. As details of the new relationship are worked out—and this will naturally require some time—we predict that the objectives will be met without adverse effects on U.S. industry.

We anticipate, further, that this elimination of automotive trade barriers will provide the stability of relationships necessary for further growth and will, in addition, generate new economic opportunities to the benefit of the citizens of both our countries.

For these reasons we recommend to this committee early and favorable action on H.R. 9042, the bill now under consideration to implement the United States-Canadian Automotive Trade Agreement of 1965.

Senator DOUGLAS. Does that finish your statement?

Mr. HOLDER. Yes, sir.

Senator DOUGLAS. You are a very gallant company.

You have seen the statement made by the head of your Canadian company. Do you regard that as substantially accurate?

Mr. HOLDER. Yes, sir; I believe so.

Senator DOUGLAS. There won't be any decrease in price?

Mr. HOLDER. We have made none in 1965, and as with the other companies, we have reached no decisions for 1966. Generally that is a decision that is made just prior to public introduction of the new models. I would like to say, Senator Douglas, that I feel that Mr. Brownridge, our Canadian president, expressed his candid views at the time. I think he was conscious on the one hand of the longer range opportunities of the new agreement, including the tariff situation. I expect he was also conscious of some increases in cost that have materialized. We have been in negotiation with our union for some weeks past and I expect the 3-year settlement there, when it is finally clarified, will represent an additional factor of cost.

Senator DOUGLAS. Of course, you are getting an increase in productivity per man-hour at the same time.

Mr. HOLDER. Yes, sir; we hope so, and we particularly hope that as we are able to organize our North American operations to the best advantage; the longer range trend will certainly be in that direction.

Senator DOUGLAS. That is, it would be a mistake to say that the movement of hourly earnings necessarily measures the increase in unit labor costs?

Mr. HOLDER. Yes, sir; as a former student—

Senator DOUGLAS. As output per man-hour increases in the same ratio, labor costs per unit of operation do not rise.

Mr. HOLDER. As a former student of the Senator I learned that very well.

Senator DOUGLAS. I will give you an "A."

What happened to that cut in excise taxes?

Mr. HOLDER. The cut in excise taxes was remitted directly to the buyers.

Senator DOUGLAS. On the 1965 model. What is going to happen to the 1966 model?

Mr. HOLDER. Certainly the reduction in excise tax is a reduction in cost and that is certainly a fundamental factor to be taken into account when the 1966 pricing decisions are being made. But I say again the matter of cost is a matter of total cost, Senator, not individual elements.

Senator DOUGLAS. It was said of Jim Reed of Missouri, he could suck eggs and hide the shells. [Laughter.]

It would seem to me that you could increase prices and cover up any evidence that this has happened.

Mr. HOLDER. Well, sir, we feel again that the matter of price and the matter of value to the consumer are factors which must be considered together.

Senator DOUGLAS. Well, far be it from me to reprove a pigmy for what the giants are doing.

Senator SMATHERS. All right, sir.

Any other questions?

Senator HARTKE. Let me ask a question.

Do you intend to manufacture automobiles to ship in the United States?

Mr. HOLDER. We have reached no decision, Senator. It is one of the things, obviously, at which we are looking.

Senator HARTKE. You are just going along for the ride?

Mr. HOLDER. No, sir; I wouldn't agree with that. I think our job, my job in particular, is to evaluate the opportunities, the new environment of trade agreement, and to recommend to our top management what appears to be the most rational course of action.

Senator HARTKE. Let me ask you a question: From the strictly American viewpoint do you see anything that America received?

Mr. HOLDER. I see a number of things; yes, sir.

Senator HARTKE. For example?

Mr. HOLDER. I think in general, the things which have been brought out in the record earlier but let me summarize them. I think we see, first of all, an opportunity for stability in relationships between the two countries that we have not had for some years.

Senator HARTKE. You mean you think that this is a matter of foreign relations, it is a good argument.

Mr. HOLDER. I would say it is a matter of very practical economic relations for the benefit of both countries.

Senator HARTKE. Economic relations. This was all precipitated by the Canadians. We didn't start it now, but it makes little difference who starts the fight, if they have a fight it is still a fight. But this is No. 1. What else is there for America?

Mr. HOLDER. I think the second beneficial thing for our country is the opportunity to move in what we would consider to be the logical and right economic direction, namely the removal of artificial trade barriers, the integration of production to the extent indicated, and lower costs of operation over a period of time when the transition can be completed. It is a good thing in principle; it is a logical thing in principle, we feel.

Senator SMATHERS. All right, sir, thank you very much.

Our next witness is Mr. Nat Weinberg, the director of special projects, and economic analysis, United Automobile Workers, Aerospace & Agricultural Implement Workers of America, AFL-CIO.

STATEMENT OF NAT WEINBERG, DIRECTOR, SPECIAL PROJECTS AND ECONOMIC ANALYSIS, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA, AFL-CIO

Mr. WEINBERG. Mr. Chairman, my name is Nat Weinberg, I am director of special projects for the CIO and I have a statement I would like to file for the record.

Senator SMATHERS. Without objection, we will accept the statement in toto.

(The statement referred to follows:)

STATEMENT OF NAT WEINBERG, DIRECTOR, SPECIAL PROJECTS AND ECONOMIC ANALYSIS, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (AFL-CIO)

Representing autoworkers on both sides of the United States-Canadian border, we in the UAW fully support the principle of removing artificial trade barriers between the Canadian and American sections of the auto industry.

Our support for this principle was given specific expression long before the Automotive Products Agreement was negotiated. In 1960, when a Royal Commission appointed by the Canadian Government was looking into the problems of the auto industry in that country, the Canadian section of the UAW, with the support of the international union, made a proposal to the Royal Commission similar in many respects to the provisions which were finally embodied in the agreement. The primary concept, of increasing the size of the total North American market for cars by permitting increased efficiency, reducing costs and prices, and thereby increasing sales, was essentially the same. We also proposed certain necessary safeguards, including adjustment assistance for workers. With these safeguards, and provided savings in costs are reflected in reduced car prices for Canadian consumers, the Automotive Products Agreement can be of great benefit to both the United States and Canada.

There is no need to burden the committee with a repetition of all of the reasons in support of the Automotive Products Agreement. Those reasons, I am sure, will be ably presented by witnesses for the administration. This statement, therefore, will be confined to two matters which we consider to be of vital importance—adjustment assistance and a proposed amendment to H.R. 9042 intended to assure that the purpose of the agreement is effectuated through price reductions to Canadian car buyers.

ADJUSTMENT ASSISTANCE

UAW support for legislation to implement the automotive products agreement has, from the outset, hinged on the nature of the adjustment assistance provisions. As soon as the agreement was announced, UAW President Walter P. Reuther issued a statement welcoming the agreement in principle. In that statement he said:

"In order to achieve the more rational division of labor made possible by the agreement, there will inevitably be some readjustment of production within and between both countries. This could result in hardship and dislocations for some groups of autoworkers and their families unless effective steps are taken to tide them over the transition period.

"We call upon both governments to assure that adequate protection will be provided for those who would otherwise be adversely affected by the agreement. It would be wholly improper for the auto corporations and car consumers to enjoy the benefits of the agreement while auto workers and their families bear the burdens and sacrifices resulting from it."

"In comparable situations the European Coal and Steel Community provides 'tide over' allowances for workers that run as high as 100 percent of wages plus other forms of assistance including supplementation of reduced wages received on new jobs. Workers may continue to receive assistance from the Community for up to 2 years."

The bill does not go that far, and we will say frankly that it does not go as far in the provision of adjustment assistance as it should. We believe it should provide full protection against any loss or injury suffered by adversely affected workers, instead of the partial protection which is proposed. But we support entirely the principle behind such protection.

The position of any workers who may be adversely affected is essentially the same as that of workers who are affected by any other Government action taken for the good of the country as a whole—for example, the closing of defense bases. Last November, when he announced the closing of 95 military bases, affecting some 63,000 jobs, Secretary of Defense Robert McNamara, emphasized the Government's acceptance of responsibility for the affected workers. In his press release dated November 18, 1964, Secretary McNamara said:

"We will also protect the individual employees who are affected by these moves. We will guarantee a job opportunity for every career employee affected by a closure. If the new job opportunity requires a move to another location, the Government will arrange for payment of transportation and moving expenses for the employee and his family. We also arrange for retraining at our expense and continue employees' salaries while they are being retrained."

The Government's responsibility to workers affected by the closing of bases stemmed from the fact that these were Government decisions made in order to achieve desired economies, reduce Government expenditures of taxpayers' money, and so benefit the whole country. The position of workers adversely affected under this agreement will be no different. The agreement has been entered into because our Government believed it would bring benefits to our country and to the people of our country. But, in achieving those benefits for the people as a whole, adjustments will undoubtedly have to be made within the auto industry. The whole concept of increased efficiency through greater specialization implies such adjustments. Some jobs will be moved to Canada—and the American workers who formerly did those jobs will not be able to and probably would not want to move with them. Other jobs will be moved from Canada to the United States—but it will be sheer coincidence, in most cases, if the communities to which jobs move from Canada are the same as the communities from which jobs have moved away to Canada. Employment with one company may decline while it increases with another. Within the same company, employment in some plants may decrease while it increases in others. Even if the worker who loses his job as a result of the agreement is offered another one, it may be in a different community, and a worker and his family cannot pull up stakes and move to another community except at considerable financial cost—not to mention human costs. In other cases, workers may require retraining before they can fill available jobs.

In short, jobs will be lost, new jobs will have to be found, and other adjustments will have to be made by auto workers in this country as side effects of an action taken by our Government for the benefit of the country as a whole. Then why should not the cost of these dislocations be considered simply as one of the costs of a national benefit, to be paid for by the Nation? Why should the price of progress for the many be economic loss and suffering for those individuals who, by sheer accident, happen to find their lives and work disrupted by it? We believe there would be every justification for adopting the principle that any worker adversely affected by the implementation of the automotive products agreement ought to be protected in full against any consequent financial loss.

This bill does not go nearly that far. But it does recognize the principle that the country has a special obligation to workers who are adversely affected by the automotive products agreement, and on that basis we support it.

Why not rely on Trade Expansion Act?

The question may be asked, Why was it necessary to write special assistance provisions into this bill? Why not rely on the provisions of the Trade Expansion Act, especially since this bill provides that the forms and amounts of assistance provided for under the Trade Expansion Act shall apply?

There are two reasons why this was necessary:

First, the Automotive Products Agreement is quite different from the kind of trade agreement which the Trade Expansion Act was intended to cover, and which might result in injury to workers or firms through increased imports of some products. This agreement is expected to lead to substantial integration of automotive production as between Canada and the United States. In consequence, workers and firms may be injured, not only through an increase in imports to the United States, but through a decrease in the export of certain

products when Canadian production is commenced, or by reallocation of operations within this country or between the United States and Canada as a direct result of the operation of the agreement. Such situations would not come under the provisions of the Trade Expansion Act at all.

A second reason is simply that the administration of the Trade Expansion Act has been such a total failure as far as adjustment assistance is concerned that, if auto workers and small firms had to rely on the Trade Expansion Act for protection, they would, in fact, have no protection at all. If assistance had been offered only under the criteria and procedures of the Trade Expansion Act, we would have had no alternative but to oppose the agreements.

Under the Trade Expansion Act, assistance cannot be provided until the Tariff Commission has made a determination that injury has been suffered. To date, adjustment assistance cases involving 1,500 workers have been acted on by the Tariff Commission. In not one of those cases has the Tariff Commission made a favorable determination.

The AFL-CIO as a whole and the UAW conditioned support of the Trade Expansion Act upon the inclusion of adjustment assistance provisions. Now that the assistance promised under that act has proved illusory, it will be impossible to mobilize future labor movement support for trade liberalization unless and until it is demonstrated that meaningful assistance can and will be provided. The Automotive Products Agreement could be the first step toward free trade between the United States and Canada in a wide variety of products leading ultimately to a North American common market. It would be tragic if that possibility were destroyed by failure to provide meaningful adjustment assistance to workers affected by the Automotive Products Agreement.

Another difficulty with the Trade Expansion Act is that it provides no specific guidelines for determining whether or not an injury has been suffered. It provides that:

"(2) In the case of a petition by a group of workers for a determination of eligibility to apply for adjustment assistance under chapter 3, the Tariff Commission shall promptly make an investigation to determine whether, as a result in major part of concessions granted under trade agreements, an article like or directly competitive with an article produced by such worker's firm, or an appropriate subdivision thereof, is being imported into the United States in such increased quantities as to cause, or threaten to cause, unemployment or underemployment of a significant number or proportion of the workers of such firm or subdivision.

"(3) For purposes of paragraphs (1) and (2), increased imports shall be considered to cause, or threaten to cause, serious injury to a firm or unemployment or underemployment, as the case may be, when the Tariff Commission finds that such increased imports have been the major factor in causing, or threatening to cause, such injury or unemployment or underemployment."

This is very vague language, indeed, and leaves the determination as to whether the adjustment provisions may be invoked almost entirely to the judgment of the Commission.

By contrast, this bill in section 302 spells out specific tests for determining whether or not the assistance provisions shall come into effect. The action is not automatic. It would be possible for the President or his representatives to find that the tests had technically been met but that the operation of the agreement had not been the primary factor in causing the dislocation. In that case, assistance would not be provided. On the other hand, if there is undoubted dislocation but the tests have not been fully met, a determination can still be made, based on the facts of the case, that the operation of the agreement has been the primary factor in causing or threatening to cause such dislocation. In that case, assistance will be available.

This, we believe, provides the proper combination of specific guidelines plus reasonable flexibility which such legislation should have. In the great majority of cases, application of the tests spelled out in the bill will determine satisfactorily whether or not assistance should be provided. But, where there are exceptions, either way, they are provided for.

Provisions with respect to production of information

The House made one change in the administration's bill (H.R. 6960) which may result in denial of adjustment assistance to some workers for whom it is intended that such assistance be provided. We refer to section 302(e) of H.R. 6042 which covers the production of factual information required for adjustment assistance determinations.

We strongly urge that the administration's proposal on this subject (which is described below) be substituted for section 302(e).

We are opposed to section 302(e) in its present form for two reasons. The first is that it places the factfinding function related to adjustment assistance petitions in the hands of the Tariff Commission which, in the cases that have come before it, has demonstrated its lack of sympathy for the whole concept of adjustment assistance. The second is that, under the statute governing the Commission's powers to require production of information, we in the UAW could be denied access to data needed in order to enable us effectively to protect the interests of our members. In at least one of the adjustment assistance cases, that involving the International Union of Electrical Workers and the Philco Division of the Ford Motor Co., the union was unable to examine data which in its opinion, had a vital bearing on its case.

The administration proposals regarding production of factual information were embodied in sections 302 (j) and (k) of H.R. 6960. The section-by-section analysis of that bill explained these provisions as follows:

"Subsection (j) provides for the production of certain kinds of information for purposes of any investigation under this section. Paragraph (1) authorizes the President, by the issuance of a subpoena, to require a person to produce books, papers, or other documents, and/or furnish in writing information, relating to any matter pertaining to such investigation. Paragraph (2) provides that in case of refusal to obey such a subpoena, the President may invoke the aid of the appropriate U.S. district court. Such court may issue an order requiring the person concerned to produce the documents or furnish the information, and any failure to obey such order may be punished by the court as a contempt thereof.

"Subsection (k) provides in paragraph (1) that any information obtained under this section shall be available to the public.

"Paragraph (2) provides that, notwithstanding paragraph (1), any interested person may make written objection to the public disclosure of any information obtained under this section, stating the grounds of such objection. Whenever such objection is made, the President shall treat such information as confidential and shall withhold it from public disclosure, unless he determines that such disclosure either would not adversely affect the interests of such person or is required in the interest of the public, in which event the President shall notify such person of his determination before such disclosure is made. Disclosure to a person participating in a hearing held under this section would be included, together with disclosure to any other member of the public, within the term 'public disclosure.' In addition, whenever such objection is made, the information in question shall not be produced by the President for use as evidence, nor admitted as evidence, in any judicial or administrative proceeding not conducted under this section. This provision is designed to insure that in any other judicial or administrative proceeding the information the public disclosure of which is objected to shall be obtained by separate means and under separate authority.

"Paragraph (3) provides that nothing in this section shall be deemed to prevent or limit the admission as evidence in any judicial or administrative proceeding of any information obtained under authority other than that of this section. It also provides that nothing in this section shall be deemed to prevent the use or admission as evidence of information obtained under this section in any prosecution for perjury or for violation of section 1001 of title 18 of the United States Code committed in connection with the furnishing of such information. Section 1001 provides in general that any person who, in any matter within the jurisdiction of any agency of the United States, falsifies a material fact, makes any false statement, or makes use of any false document, shall be fined not more than \$10,000 or shall be imprisoned for not more than 5 years, or both."

It is evident from the foregoing that the administration proposals would provide ample protection for companies required to produce data. In order to assure that adjustment assistance is in fact provided for all workers displaced as a result of the Automotive Products Agreement, it is imperative that the language of sections 302 (j) and (k) of the administration's bill be substituted in place of section 302(e) of H.R. 9042.

PROPOSED AMENDMENT TO BRING ABOUT REDUCTION OF CANADIAN CAR PRICES

Developments since negotiation of the Automotive Products Agreement make it abundantly clear that the objectives sought through that agreement will not be realized unless steps are taken to assure that savings in tariffs and in production

costs made possible by the agreement are passed on promptly to Canadian consumers in price reductions.

From the beginning, the UAW has taken the position that those savings must be passed on to consumers. In the statement welcoming the agreement, previously referred to, President Reuther said:

"The efficiencies resulting from such a division of labor will reduce production costs—particularly in Canada where low volume has prevented full and effective use of mass production techniques. The industry is morally obligated to pass those cost savings on to consumers in lower prices and thus expand sales and production. Lower prices would mean increased employment in both countries for auto workers as well as workers in other industries which supply materials, parts and components used in auto factories."

Car price reductions for Canadian consumers can be brought about by adding an amendment to H.R. 9042 which would be wholly in keeping with the spirit and intent of the agreement. The terms of a proposed amendment designed to bring about reductions of prices charged for automotive products in Canada are outlined later in this statement.

Purpose of agreement

The major purpose of the automotive products agreement is to increase sales, production, and employment in the North American automobile market through price reductions made possible by elimination of tariffs and gains in efficiency in Canadian plants. That this is the purpose is clear beyond all doubt from the language of the agreement itself and from statements made, among others, by the President of the United States, by the Secretaries of Commerce and Labor Department, by the Under Secretary and an Assistant Secretary of the State Department, by representatives of the industry and by the House Ways and Means Committee and its chairman. The following quotations are illustrative:

Automotive products agreement—Preamble:

"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*; * * *." [Emphasis added.]

President Johnson—letter to Congress, March 31, 1965, recommending legislation to implement the agreement:

"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*." [Emphasis added.]

G. Griffith Johnson, Assistant Secretary of State for Economic Affairs—Testimony before the Canadian Affairs Subcommittee of the Senate Foreign Relations Committee on the Automotive Products Agreement, February 10, 1965:

"Over time, the industry could look to lower production costs in Canada and *the consumer to lower prices*. The total production of the North American industry, the total market of the North American consumer and the total trade between Canada and the United States could be expected to expand." [Emphasis added.]

John T. Connor, Secretary of Commerce—Testimony before the House Ways and Means Committee on the Automotive Products Trade Act, April 27, 1965:

"The purpose is to eliminate barriers to rationalized, low-cost production and thus ultimately to expand the North American automotive industry market for the benefit of both Canada and the United States."

* * * * *

"In the long run Canadian consumption should increase substantially both as a direct result of the elimination of import duties between the United States and Canada, and as an indirect result of thereby stimulating more efficient use

of existing and future plant capacities * * *. This increased efficiency resulting from these developments and the savings in import duties, should make possible *lower prices* and an expanding market.

"The U.S. parts industry should also benefit from this program, both immediately as a result of the termination of the duty remission scheme, and in the long run as a result of the projected increase in total vehicle sales in the North American market." [Emphasis added.]

Willard Wirtz, Secretary of Labor.—Testimony before the House Ways and Means Committee, April 27, 1935:

"As Canadian output increases we will find that our market for parts will also increase; further, as *Canadian demand expands* and the industry becomes unified, our net exports of finished vehicles to Canada should also become greater." [Emphasis added.]

Thomas O. Mann, Under Secretary of State for Economic Affairs—Testimony before the House Ways and Means Committee, April 27, 1935:

"Canadian subsidiaries of U.S. companies will be able to produce longer runs of fewer models, *lower their prices* and expand their markets. The economies of both countries will benefit." [Emphasis added.]

David W. Kendall, vice president, legal affairs, Chrysler Corp.—Testimony before the House Ways and Means Committee, April 28, 1935:

"* * * it [the United States-Canadian agreement] forms not only a firmer base for the assurance of jobs, first in the United States and concurrently in Canada, but also an increase of jobs on both sides of the border."

* * * * *

"There is no question in our judgment that the economies of high volume will reduce costs on both sides of the border. The total United States and Canadian market will be available to parts suppliers and manufacturers on both sides of the border. To U.S. suppliers and to the U.S. auto manufacturers the implementation of the trade agreement may be likened to *gaining the effects of 3 years of market growth in addition to normal market growth over the next 3 years.*" [Emphasis added.]

Fred G. Secrest, vice president and controller, Ford Motor Co.—Testimony before the House Ways and Means Committee, April 28, 1935:

"As we shall demonstrate, we expect that the agreement will—

"1. Increase the efficiency of the automotive industry, and promote a *more rapid rate of growth in output and employment* in both countries * * *." [Emphasis added.]

Leonard Woodcock, vice president, UAW—Testimony before the House Ways and Means Committee, April 29, 1935:

"In spite of the problems it presents, we believe that the automotive products agreement is sound in principle and that it will provide substantial benefits for both the United States and Canada. It will permit a more efficient use of productive resources and a corresponding reduction in costs. The sooner these cost savings are passed on to consumers, the sooner they will be reflected in rising sales and higher employment in the auto industries of both countries."

Report of the House Ways and Means Committee to accompany H.R. 9042:

"Over the long term, the agreement offers both U.S. vehicle and parts manufacturers the opportunity to make more efficient their United States and Canadian operations. No longer will they need to build duplicate production facilities in Canada. 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. These economies, *when reflected in lower prices in Canada*, should stimulate further expansion of the Canadian market in which both United States and Canadian firms will participate." [Emphasis added.]

Congressman Wilbur Mills, chairman of the House Ways and Means Committee—In presenting H.R. 9042 to the House of Representatives:

"I am confident that both Governments and the companies intend that there shall be as rapid a *reduction in prices* as the rise in efficiency will permit." [Emphasis added.]

Not all of the above statements refer directly to lower prices; but all those that do not clearly imply price reduction by referring to cost reductions and/or expansion of markets. Obviously the agreement will bring about expansion of markets only if the cost reductions which it makes possible are passed on to consumers in lower prices.

Purpose frustrated

The purpose of the Automotive Products Agreement, as authoritatively stated by those quoted above, is being frustrated by the refusal of the Canadian subsidiaries of the U.S. auto corporations to reduce the prices charged Canadian car buyers.

The savings resulting from increased efficiency will be realized over a period of time, although it need not be a lengthy period. But there is one substantial saving which the auto companies are enjoying already—the elimination of the tariff, which in Canada was abolished immediately the agreement was announced. This is a significant saving; the amount of tariff which was paid in 1964 on imports of vehicles and parts from the United States is estimated at about \$50 million.

The auto manufacturers are making sure that every cent of those savings accrues to them. We have been informed, for example, that a Canadian parts manufacturer, producing parts for the Canadian auto companies, who has to import some of his components from the United States, has been told by the companies that he must reduce his prices by the amount of tariff he saves on imported components. There is no reason to believe that this is a unique case.

The auto companies are not passing on any of their tariff saving to auto buyers. The prices of cars to Canadian buyers have not been cut by 1 cent, and the companies have made it clear that they have no intention of reducing prices now or in the near future. Even in the case of cars imported by the companies from their U.S. plants, where the operation of the agreement has meant the immediate elimination of a 17½-percent tariff, there has been no cut in prices.

From a number of sources in both the United States and Canada it is reported that the auto companies intend to keep for themselves the savings made possible under the agreement, and to use the funds for investment in new plants and facilities that is, to compel Canadian consumers to finance plant expansion. The Toronto Financial Post, a leading Canadian business paper, reported on January 23, 1965:

"Although the 17½ to 25 percent tariff on autos and auto parts from the United States was dropped at the beginning of the week, there is to be no drop in the price of North American autos in Canada—not even those imported fully assembled from the United States—for some time to come, auto industry officials advise the Financial Post.

"In fact, don't look for any real action on prices until 1968 * * *.

"The U.S. auto companies, through their Canadian subsidiaries, expect to use the money saved on the tariff—about \$50 million annually—by channeling it into new facilities in Canada.

"This is one of the sweeteners the Canadian Government used to get the necessary auto company commitments to support the plan. The Canadian Government has, in carefully worded statements, suggested that price drops are highly unlikely in the next 2 or 3 years while maintaining that after that Canadian and United States auto prices should move closer together."

Corroborative reports have also appeared in the Toronto Globe & Mail, the Windsor Star, the Canadian edition of Time, and, in the United States, in Automotive News.

Can well afford to pass on savings

The corporations can hardly plead inability to pass the tariff savings along to consumers. None of the major car producers publishes a separate financial statement of its Canadian operations, but they are believed to be highly profitable. A Toronto Globe & Mail report of January 19, 1965, stated:

"* * * the [Canadian] Government is acutely aware of the fact that behind the shelter of what appears to be an unduly high protective tariff wall, Canadian auto manufacturers were able to amass profits higher than those in virtually any other major Canadian industry.

"According to one estimate, the average annual profit of the auto manufacturers often has run to around 30 percent of their net worth; that is the total amount of their invested capital, compared with a more normal 10 to 15 percent return in other industries.

"While the balance sheets of most of the major producers are closed to public scrutiny, one Federal official estimated that in a good year the profit earned by one of the leading Canadian auto producers might run as high as 80 to 90 percent of invested capital."

Prices can be cut now

As a result of tariff savings under the agreement, price cuts are in order now in Canada, applicable to all North American-produced cars. We recognize that it would be scarcely feasible for the companies to cut prices on imported models while maintaining prices on Canadian-made cars—though even the cost of producing these cars has been reduced by elimination of the tariff on U.S.-made parts. But there is no reason why the \$50 million total saving resulting from the elimination of tariffs could not be reflected in a flat percentage cut applying to all cars sold by U.S. subsidiaries in Canada, whether imported or domestically produced. Our very rough estimate is that this would permit an immediate price cut of the order of 4 percent in the wholesale price, followed by additional cuts as increases in efficiency in the Canadian industry are reflected in lower costs. The final result should be a reduction in Canadian car prices of about 17 or 18 percent, since the present price differential primarily reflects the 17½ percent Canadian tariff on finished cars imported from the United States.

One reason why the U.S. subsidiaries operating in Canada are not reducing their Canadian prices is because the agreement, and the amendment of Canadian tariff regulations flowing from it, provide that the tariff is suspended only with respect to importations made by Canadian motor vehicle manufacturers. Thus, when General Motors, Ford, or Chrysler brings a car from one of its U.S. plants into Canada for sale to a Canadian buyer, it is excused from payment of the 17½-percent tariff. But the individual Canadian who comes across to Detroit, buys the same car, and tries to take it back home to Canada will still have to pay the tariff. Thus, there is no economic pressure on the companies to pass their tariff savings on to Canadian consumers. President Johnson said in his letter to Congress:

"The automotive producers of the United States and Canada make up a single great North American industry."

The purpose of the agreement is to provide that industry with a single market. But there will be no such common market until there is genuinely free trade for the individual consumer as well as for the manufacturer.

Genuinely free trade would assure that consumers and workers obtained the benefits of lower prices and increased employment opportunities which it is the purpose of the agreement to provide for them. But it is apparent from the evidence at hand that the auto corporations have no present intention to cooperate voluntarily in achieving the purpose of the agreement.

Price reductions may never come

In fact, there is basis for the belief that the auto corporations have no intention of reflecting their cost savings in price reductions at any time in the future. The official record of the Canadian House of Commons quotes the Minister of Industry as having said on May 10, 1965:

"There is on occasion a demand on the Government to give assurances that there will be a decrease in the price of cars. I think the Honorable Member for Wellington South (Mr. Hales) was more realistic when he said he anticipated that the likely results of this operation would be a continuing increase, a nominal increase, anyhow, in the price of cars in the United States, but with the ability to hold the price of cars in Canada level, with the result that in the course of time the differential in price between this country and the United States would disappear. I myself think it is more likely that we shall not have price increases than that we shall have significant price decreases, though I am hopeful we may have some modest price decrease."

That this statement is not without basis in fact is strongly suggested by a news story in the Detroit News of September 5, 1965. Under the headline "Big Three to Boost 1966 Car Prices—Tax-Cut Gain To Be Erased," the article began:

"Most new car buyers are going to pay more for 1966 cars than they did for the 1965 models.

"It will be the first general price increase in 7 years.

"Everything auto buyers gained from the recent cut in excise taxes—and much more in some instances—will be wiped out when the new models appear late this month and early in October.

"The Big Three auto manufacturers have not yet made a formal announcement on prices but increases appear certain on the basis of information from various industry sources."

Corporations which, despite their almost unbelievable profits, are prepared to recapture excise tax savings intended to benefit consumers—a matter which

should be of some interest to this committee—can hardly be expected voluntarily to pass on to consumers savings achieved as a result of the Automotive Products Agreement.

The apparently impending car price increases in the United States underline the necessity for adopting an amendment along the lines proposed below if the purpose of the agreement is to be accomplished.

A matter of U.S. concern

Refusal of the corporations to reduce prices in Canada is a matter which is of direct and immediate interest to both United States and Canadian workers. Maintenance of artificially high prices on the Canadian market means the continuation of an artificial restriction on motor vehicle sales in Canada. This in turn means that there will be fewer auto industry jobs than there could and should be—not only in the Canadian auto plants, but in the United States auto plants which produce vehicles or parts for the Canadian market. This, in turn, will make more difficult the process of adjustment which this bill is intended to facilitate by restricting the number of alternative job opportunities available to workers who are displaced or threatened with displacement.

The \$241 million commitments

U.S. concern over prices charged in Canada is heightened by the commitments which the Canadian subsidiaries of the U.S. auto companies have made to the Government of Canada. As is well known, they have promised to increase Canadian value added as of the end of model year 1968 by \$241 million in excess of the increase resulting from normal growth of the Canadian market.

We in the UAW have no objection in principle to commitments of that kind. In fact, our 1960 proposal to the Canadian Royal Commission envisioned that Canada would gain an increased share of the total North American market by being assured the full benefit of the expansion in Canadian sales—normal expansion plus the additional expansion that would result from reduced prices.

Given price reductions, there is good reason to believe that the \$241 million commitments of the Canadian subsidiaries could easily be met entirely out of the added expansion—beyond normal growth—of the Canadian market that lower prices would foster. The Senate Subcommittee on Antitrust and Monopoly, in its report on administered prices in the automobile industry, estimated that every change of 1 percent in the prices of new automobiles would lead to a change in the opposite direction of between 1.2 and 1.5 percent in demand for automobiles, with 1.2 percent described as a "minimum estimate."

These ratios probably apply, at least approximately, to Canada as well as to the United States. In fact, the ratio for North American-made cars may be greater in Canada where a cut in prices for such cars would induce some shifting of consumers away from European imports which take a substantially larger share of the Canadian than of the United States market.

Thus, if it is assumed conservatively that integration of the industry would enable Canada to achieve efficiencies of scale that would permit a price reduction in Canada of 15 percent, demand would increase at the "minimum estimate" by 18 percent.

Shipments of the Canadian automotive industry in the 1964 model year, according to the U.S. Department of Commerce, amounted to \$1.5 billion—the overwhelming portion of which was sold in Canada. An 18-percent increase in such shipments resulting from price reductions would come to \$270 million. Applied to the larger market that Canada can expect to have in 1968 as a result of normal growth with car prices at their present level, an 18-percent increase in demand would mean well over \$300 million.

The \$241 million commitments of the Canadian subsidiaries would thus be well within the limits of what would be attainable solely on the basis of the extra expansion of the Canadian market that would occur if those subsidiaries carried out the purpose of the agreement by reducing their prices. The commitments would then require no impingement on the sales volume the U.S. branch of the industry could expect to have in the two-country market, based on normal expansion of that market.

In the absence of price reductions, however, there will be no expansion of the Canadian market beyond its normal growth. As a result, the Canadian subsidiaries will be able to carry out their commitments only by increasing their net auto exports to the United States by \$241 million per year. This could be accomplished by adding an extra \$241 million to the increased exports that will result from the agreement, or by keeping imports \$241 million below

the level that would otherwise result from the agreement and replacing such imports by added Canadian production, or by a combination of both.

Thus, if Canadian car prices were reduced, the subsidiaries would be able to keep their commitments and Canada would gain a larger relative share of the total North American market without impinging on the absolute volume of U.S. sales. There would be more sales, production, and employment in the two countries combined than if the agreement had not been negotiated. If Canadian prices are not reduced, however, expansion of the total two-country market will reflect only normal growth at present prices and the U.S. share of that market will be \$241 million less than it would otherwise have been.

The United States, therefore, has a very vital interest in the prices charged by the Canadian subsidiaries and in the light of that interest as well as of the purpose of the agreement, every right to do what it can to bring about reductions in Canadian car prices.

Canadian-made cars sold in United States at U.S. prices

While negating the purpose of the Automotive Products Agreement by refusing to reduce prices of Canadian-made cars sold in Canada, the auto corporations are shipping or planning to ship such cars into the United States to be sold here at U.S. prices.

It was reported months ago that Ford was shipping 400 cars per month into the United States from Canada for sale here at U.S. prices, and that Chrysler planned, during the 1966 model year, to build 80,000 cars in Canada for shipment to the United States. The September 8, 1965, issue of the highly authoritative Ward's Automotive Reports says:

"Full details are still lacking but it would not be surprising to see Canadian manufacturers in total ship more than 200,000 new cars and trucks to the United States in the coming year, and probably receive something less than that on a reverse basis."

Obviously, the Canadian-made units will be salable in the United States only if they carry U.S. prices. But identical units, made in the same Canadian plants, will be sold to Canadian consumers at substantially higher prices.

Opposed to antidumping amendments

Such shipments from Canada have given rise to charges of "dumping" and to suggestions that H.R. 9042 be amended to include antidumping provisions. We are emphatically opposed to any such amendment. The agreement leaves the United States free to take antidumping action under part II of the General Agreement on Tariffs and Trade if such action should ever be deemed necessary. But antidumping action will not accomplish the purpose of the Automotive Products Agreement which, as noted, is to expand sales, production, and employment in the two-country market.

The agreement, which we support and with whose purpose we are in accord, contemplates and was designed to foster a division of labor between the United States and Canada under which each country will specialize in the production of certain car models and certain automotive parts. Such specialization would be impossible unless each country were able to ship its models across the other's border.

We recognize that, due to the inefficiencies of small-scale production for a limited market, the Canadian branch of the industry has not been able to match the efficiency of the U.S. branch. Until differences in efficiency are leveled out under the Automotive Products Agreement, there will be a transition period in which Canadian production costs, though moving downward, will remain higher than U.S. costs. Such cost differentials may reasonably be reflected in price differentials. But the process of eliminating the cost differentials cannot begin unless and until the Canadian branch of the industry is given access to the U.S. market and thus is enabled to specialize in large-scale production of certain parts and models.

It is therefore entirely consistent with the Automotive Products Agreement for Canadian-made cars to be sold in the United States at lower prices than in Canada until costs in the Canadian branch of the industry are reduced to the U.S. level.¹

¹ The committee is doubtless aware, however, that the industry's excessive profit margins would permit substantial price reductions on both sides of the border even if there were no Automotive Products Agreement.

But it is definitely not consistent with the purpose of the agreement, as spelled out above, for Canadian prices to exceed those charged in the United States for comparable units by more than the difference in cost.

The amendment to H.R. 9042 proposed below is designed to permit shipments of Canadian-made cars into the United States at lower-than-Canadian prices where the price differential is no greater than the cost differential but to block such shipments where the difference between the Canadian and the United States price is greater than the cost differential.

Proposed amendment

In order to accomplish the purpose of the agreement, we urge the committee to add an amendment to H.R. 9042 which would assure that companies taking advantage of the Automotive Products Agreement promptly pass on to Canadian consumers cost savings achieved under the agreement. Such an amendment, as we visualize it, might take substantially the form outlined in the following paragraph.

"Whenever the Secretary of the Treasury determines that a Canadian-made automotive product covered by the agreement is being or is likely to be sold in the United States at a price less than the price charged by the manufacturer in Canada, he would make public his finding as to the amount of the price differential. The product would then be subject to a special duty equal to that amount unless the Canadian producer shows both that the actual production cost (exclusive of profit) is higher in Canada than in the United States, and that the markup of price over cost is no greater in Canada than in the United States. If such a showing is made, the special duty would be reduced by an amount equal to the excess of Canadian over United States production costs. Prices for these purposes would be the price exclusive of any excise tax imposed by Canada or the United States and, in the case of a sale made through a distributor or dealer acting as agent for the manufacturer, exclusive of any commission and allowance for expenses paid to such agent. Whenever information came to the attention of the Secretary of the Treasury indicating a change in the relationship between Canadian and United States prices and/or production costs for any product, he would review and, if necessary, revise any finding previously made with respect to that product. The Secretary would be empowered, through subpoena if necessary, to obtain from U.S. manufacturers and from Canadian firms seeking entry into the United States under the terms of the agreement for any product, any information, including periodic reports, required to enable him to carry out his responsibilities. The Secretary would prescribe by regulation the procedures, including hearings when requested by any interested party, to be followed in making or revising his findings."

The proposed amendment gives full recognition to the fact that during the period of transition to integrated North American production, production costs in Canada will tend to be somewhat higher than in the United States. It would therefore permit duty-free entry of automotive products into this country even if they were sold here at a lower price than in Canada. But it would have the effect of barring entry in cases where the price differential is not fully justified by the cost differential. Thus, the advantages of free access to the U.S. market under the agreement would be available only to those willing to cooperate in accomplishing the purpose of the agreement—to expand the total North American market through cost reductions that are passed on in price reductions.

Free access would be denied only to those whose pricing policies would block attainment of the goal of the agreement—only to those who would appropriate to themselves the savings in tariffs and production costs that were intended to benefit consumers and to increase employment.

The amendment says, in effect, "You may not have the benefits of the agreement unless you are willing to accept the obligations that go with them." Nothing could be more reasonable or fairer.

An example of how the proposed amendment would work is appended to the end of this statement, in appendix A.

Reverse of antidumping action

I would emphasize again that the amendment proposed above is not an antidumping amendment and that we would vigorously oppose making H.R. 9042 a vehicle for antidumping legislation of any kind.

In fact, our proposal is the exact reverse of an antidumping provision. Such a provision would prevent the sale of a product in an importing country at a price lower than that charged in the country of manufacture. Our proposal would

explicitly permit sales of Canadian-made cars in the United States at prices lower than those charged in Canada provided only that the price differential is no greater than is justified by higher Canadian costs.

Far from being denied entry for their products, as they would be under anti-dumping action, the Canadian subsidiaries would be given free entry into the U.S. market—even for products carrying higher price tags in Canada than in the United States—so long as they complied with the purpose of the Automotive Products Agreement by reducing the prices charged Canadian consumers to the extent of the cost savings achieved as a result of the agreement.

In short, an antidumping amendment would thwart the purpose of the agreement; the amendment which we propose would promote that purpose.

No reasonable basis for objection

All groups supporting the automotive products agreement have acknowledged, directly or by implication, their recognition of the intention of the agreement that automotive prices be reduced as rapidly as permitted by cost savings resulting from it. All have indicated that they are in accord with that intention.

As is evident from the statements quoted previously, it is clearly the intent of the U.S. Government that there be such reductions in prices. It was certainly the intent of the UAW when, in 1960, we made a similar proposal to the Canadian Royal Commission and, again this year, when Mr. Reuther welcomed the negotiation of the agreement. The industry, in its efforts to obtain legislation to implement the agreement, has held out the hope of price reductions. But its action in withholding \$50 million in tariff savings from Canadian consumers calls its intentions sharply into question.

If it is, in fact, the intention of all concerned that cost savings be promptly reflected in price reductions, there can be no reasonable objection to the amendment we propose. It would do nothing more than to assure the doing of what those concerned would have us believe they intend to do.

Nevertheless, we anticipate that the auto corporations will oppose our proposed amendment and that they will argue that the U.S. Government should not dictate prices to Canadian companies. Opposition from the corporations, in and of itself, would be a clear sign that the industry does not intend to reduce prices in compliance with the purpose of the agreement. As to their expected arguments, two points should be kept in mind. First, the companies involved are not really Canadian companies but subsidiaries of U.S. corporations. Second, the amendment we propose does not call for dictation of prices. It would leave the Canadian subsidiaries entirely free to set prices at any level they may choose. It would merely say to them that, in setting their prices, they should act in the knowledge that they will not be given the benefits of the automotive products agreement unless they are willing to accept the obligations imposed by the purpose of that agreement.

The amendment we propose would serve as a constant reminder to the auto corporations that the agreement was negotiated by governments representing all the people of the United States and Canada for the benefit of the people in both countries. It was not negotiated for the exclusive benefit of the auto corporations.

CONCLUSION

In spite of the problems the automotive products agreement presents, we believe that it is sound in principle and that effectuation of its purpose will provide substantial benefits for both the United States and Canada. We hope the agreement will prove to be but the first in a series of actions that will lead to complete free trade between the two countries to the great advantage of both.

Whether or not that hope is realized will depend in major part on the practical effects of the agreement and of the legislation the committee is now considering. Workers in both the United States and Canada will support or oppose the further freeing of trade in the light of the availability and adequacy of the adjustment assistance provided for those affected by the automotive products agreement and in the light of the contribution the agreement makes to the expansion of job opportunities. Consumers will evaluate future proposals for trade liberalization based upon whether they benefit from the cost savings resulting from the agreement.

We therefore urge the committee to report out a strengthened bill that will encourage workers and consumers to believe that the hazards of trade liberalization can be minimized and that the benefits are worth seeking.

APPENDIX A

Situation I

In the United States the car sells for \$1,800 wholesale and costs \$1,400 to manufacture.

In Canada, the same car sells for \$2,000 and costs \$1,000 to produce.

The difference in price is \$200 and a special duty of \$200 would ordinarily apply.

However, the Canadian producer can show that the markup of price over cost in Canada, \$400, is no greater than in the United States.

Therefore, the car qualifies for a reduction of the special duty equal to the excess of Canadian over United States costs. This is \$200, which is equal to the special duty. Therefore, the car would be able to enter the United States duty free despite the fact that it carries a higher price tag in Canada.

Situation II

Efficiency (or tariff savings) achieved under the agreement results in reducing Canadian production cost to \$1,500.

But the Canadian price is not reduced. As a result the Canadian markup over cost is \$500, which is greater than the markup in the United States.

This disqualifies the car for reduction of the special duty which would be imposed in the amount of \$200, representing the difference between the Canadian and the United States price.

Situation III

The Canadian producer reduces prices by \$100, equal to the cost savings shown in situation II. The price in Canada is now \$1,900 which is \$100 more than the U.S. price. The special duty would therefore ordinarily be \$100.

However, the Canadian markup of price over cost, or \$400, is now no greater than the U.S. markup.

Therefore, the special duty is reduced by the excess of Canadian over United States costs, which is also \$100.

As a result, the car may enter the United States duty free despite the higher Canadian price.

Note.—The same principle could be applied on the basis of percentage rather than dollar markups. Dollar figures are used above to enable presentation of the example in round figures.

	Situation I			Situation II			Situation III		
	Canada	United States	Difference	Canada	United States	Difference	Canada	United States	Difference
Price.....	\$2,000	\$1,800	\$200	\$2,000	\$1,800	\$200	\$1,900	\$2,000	\$100
Cost.....	1,600	1,400	200	1,500	1,400	100	1,500	1,400	100
Margin of price over cost....	400	400	0	500	400	100	400	400	0
Special duty (unadjusted)...	200	.....	.....	200	.....	.....	100	.....	.....
Reduction.....	-200	.....	.....	0	.....	.....	-100	.....	.....
Net special duty.....	0	.....	.....	200	.....	.....	0	.....	.....

Mr. WEINBERG. We in the UAW would welcome the automotive products agreement for several reasons. We believe that it would make possible and would bring about lower prices for consumers. In so doing, it would expand the auto market and thus create more jobs for auto workers. It was a way of avoiding a nasty game of retaliation and counterretaliation between the United States and Canada, and we hope the agreement would pave the way for other similar agreements leading ultimately to a North American common market.

It was for these same reasons that we had made a somewhat similar proposal to a Canadian Royal Commission in 1960, but along the way to an integrated North American auto industry there will be some dislocations of workers as production is realigned on both sides of the

border. Since the agreement is for the benefit of all people in both countries, it would be immoral in our opinion to require those workers to bear the entire brunt of the burdens and sacrifices involved.

We have, therefore, said repeatedly that our support for the agreement is conditioned on the provisions made to minimize hardships for those workers.

The adjustment assistance provisions of the Trade Expansion Act will not serve that purpose. First, under this agreement dislocations can occur not only as a result of an increase in imports, which is the only situation covered by the Trade Expansion Act, but also, first, (a) because of a decrease in U.S. exports of certain automotive products to Canada and, (b) because of reallocation of operations—

Senator SMATHERS. Mr. Weinberg, I apologize for interrupting, but we are having a vote over on the Senate floor, on the highway beautification bill and must recess today's hearing. Could we put your statement in the record and then it is my understanding that Senator Hartke wants to interrogate you. You live in town?

Mr. WEINBERG. No; I do not, Senator. I live in Detroit. I would be very glad to wait until the vote is over.

Senator SMATHERS. Senator Hartke is supposed to be meeting with Mr. George Meany after the vote.

Senator HARTKE. I am supposed to be meeting with him right now.

Senator SMATHERS. I would like to suggest that Mr. Hartke reduce to writing the questions he chooses to ask you—

Senator HARTKE. I do not want to do that.

If you want to deny me the right to ask questions, I will do that. But I refuse to take this thing in a cavalier fashion and rush on through. It is evident that is what is being attempted to be done. If you want to deny me the right, to deny me the right to question—

Mr. WEINBERG. I will be glad to come back, Senator, tomorrow morning.

Senator SMATHERS. We have a number of witnesses scheduled for tomorrow who were originally scheduled to testify today. If Senator Hartke wants to ask you questions, there you sit, there is the microphone, nobody is denying you anything.

Senator HARTKE. I am going to go vote.

Senator SMATHERS. All right. So he is going to vote.

Now that being the case, and I don't have any desire to ask you any questions, we will make your statement a part of the record, and the committee itself, the full committee, will have to determine whether or not you will be required to come back. As far as I am concerned, you are excused.

The committee will recess until 10 a.m. tomorrow morning.

(The following communications favoring enactment of the pending legislation were inserted in the record of the hearings at the direction of the Chair:)

DETROIT, MICH., September 13, 1965.

Senator HARRY F. BYRD,
Chairman, Senate Finance Committee,
Washington, D.C.:

Newspapers have carried reports that numerous automotive parts suppliers have protested the United States-Canada Auto Trade Agreement. The manufacturers of largest volumes of components for the passenger car and truck industries do not oppose the agreement—we are for it. In the year 1962-64 the United States exported \$1,839 million in vehicle and auto components to Canada. Dur-

ing that time \$104 million in similar products moved from Canada to the United States; a ratio of 18 to 1. How long can we expect Canada to hold still. The agreement will result in some short-term dislocations and create some duplication of facilities, but the improved longer term growth will correct these rapidly. When we speak of dislocation there will probably be more in Canada than in the United States. Low-volume tooling has handicapped the Canadian automotive industry for 40 years. The long-term employment and standard of living growth forces in Canada and the United States will be greatly enhanced by the agreement. Rockwell-Standard Corp. is a major supplier of axles, transmissions, springs, universal joints, brakes, bumpers, and seat cushions to the industries. Eighteen plants in the United States now produce these products for us. In addition we operate one plant in Canada and have a 75-percent ownership in Ontario Steel Products Co., Ltd., operating six Canadian plants. Our U.S. auto component plants are in Michigan, Ohio, Indiana, Pennsylvania, and Wisconsin. We visualize little dislocations here as a result of the agreement. Certain Canadian facilities would show larger short-term growth. Approval delay is creating confusion.

Failure to pass the agreement presents long-term economic problems that will not be solved without alternate action preferably accomplishing similar objectives. A return to Canadian duty remission or anticipated similar punitive action in Canada will stultify the growth of the Canadian automotive industry and its requirements on U.S. manufacturers. Such action would also stultify the Canadian standard of living and promote poor relations with one of the few real friends our Nation has left. We strongly recommend favorable Senate action, the larger automotive component suppliers are in substantial agreement. A concerted voice that has been heard in Washington is by an association of service parts manufacturers "ASIA" representing smaller companies producing service replacement parts for independent canals of distribution. The proposed agreement has not eliminated tariffs on automotive service parts, but eventually these should go. Also there is no association representing the largest manufacturers of automotive components. We are very cognizant of several tariff differentials abroad that penalize U.S. manufacturers of automotive vehicles and components. Our national concern should be to help a friend geared intimately with the U.S. economy.

R. G. WINGERTER,

President, Automotive Division, Rockwell Standard Corp.

DETROIT, MICH., September 2, 1965.

HON. HARRY F. BYRD,
*Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:*

House-passed bill, H.R. 9042, on August 31 and being sent to Senate for your consideration. As a supplier of axles, transmissions, springs, engine components to the auto industry we urge favorable action. Passage would assist us in selling in Canadian market. Delay is holding up expansion plans. Failure to pass will eventually seriously curtail Canadian purchases of U.S.-made parts.

F. I. GOODRICH,

Vice President, Eaton Manufacturing Co.

ROMULUS, MICH., September 2, 1965.

HON. HARRY F. BYRD,
*Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:*

The Kelsey-Hayes Co. of Romulus, Mich., is a significant producer in the United States and Canada of passenger car and truck wheels and brakes for the principal automobile and truck manufacturers. We believe that the Automotive Products Trade Act of 1965 implementing the agreement concerning automotive products between United States and Canada, is beneficial legislation.

In our opinion, the automotive industry and its suppliers would be adversely affected by a failure to pass this act. We respectfully urge the enactment of the Automotive Products Trade Act of 1965.

W. D. MACDONNELL, *Kelsey-Hayes Co.*

STATEMENT OF JOHN W. HIGHT, EXECUTIVE DIRECTOR OF THE COMMITTEE FOR A NATIONAL TRADE POLICY

The Committee for a National Trade Policy wishes to support H.R. 9042, which would permit the United States to implement the executive agreement signed by the President and by the Canadian Prime Minister last January 16. We have taken this position because we believe that the objectives of the agreement and of the proposed legislation are freedom of trade between the United States and Canada in automotive vehicles and parts.

As your committee knows from previous statements of our organization, we believe that free international trade is the trade policy best calculated to advance the national interest, and that the pace of trade liberalization should be as fast as the capabilities of the United States and its major trading partners allow. We therefore supported the Trade Expansion Act and its predecessor legislation, and we have opposed the continuing efforts that have been made to get our Government to impose new restrictions on trade.

Despite the obvious fact that the executive agreement does not provide for total free trade at this time on shipments of all automotive vehicles and original parts between the two countries, we feel that it goes in the direction of rationalizing the automotive industry on the North American Continent and should therefore result in lower costs of production both in Canada and the United States, to the ultimate benefit of consumers of both countries. The provisions relating to periodic review of the effects of the agreement will, in our opinion, enable both countries to make certain that the agreement actually results in the benefits which are currently contemplated.

We have no way of predicting what patterns of production mix will be decided upon by the various companies in their operations on both sides of the border. The results should be studied, however, to determine whether the agreement is working toward the agreed objectives of free trade and market expansion, and whether the adjustments are working out as expected. These points should be covered in the annual report.

Integration of the North American automotive industry is a goal worth striving for, since it would lead to greater efficiency and lower prices on both sides of the border, to the benefit of both countries. Canadian tariffs protected a relatively inefficient industry in a relatively small market, and their existence invited manipulation as a means of accomplishing the desired integration. However, the most soundly based approach to achievement of this goal is the elimination of tariffs on both sides without causing the liquidation or serious decline of the weaker Canadian industry—an industry already in-being and in which the Canadian economy had an important stake.

This should have been the answer sought by the Canadian Government in the first instance, rather than the unfortunate road they initially chose. This in fact should have been sought by both Governments as part of a wider effort to achieve free trade in products of industries on both sides of the border which lend themselves in a special way to integration. The fact that the January agreement emerged out of controversy surrounding the Canadian Order in Council on automobile export promotion, and was largely if not entirely motivated by a need to resolve that difficulty and the political problem that followed on our side of the border, should not detract from the basic merits of what both Governments have now decided to do.

We are aware of the fact that a major element in this new step is the assurances which the Canadian automobile manufacturers have given the Canadian Government regarding the amount of Canadian production they will maintain in relation to their total operations in the Canadian market. Such assurances are important qualifications for the right to benefit from the duty-free provisions of the agreement. Our support of the bill before you, proceeds on the assumption that these commitments are consistent with the objectives we have endorsed. In our examination of these "letters of undertaking" we find nothing which necessarily conflicts with the purpose of the agreement.

In supporting the bill before the House Ways and Means Committee we suggested that certain features of this proposed legislation and of the overall trade policy dimensions of the bilateral agreement could be improved upon to the advantage of the U.S. position in the General Agreement on Tariffs and Trade and in the Kennedy round, as well as to the advantage of sound trade policy administration here at home.

One of these suggestions dealing with U.S. Tariff Commission review of adjustment assistance cases has already been adopted, in part, by the House. We regret that the Tariff Commission's responsibilities under this bill do not include the reaching of conclusions and the making of recommendations.

Another dealt with the relation of the agreement and this bill to overall U.S. trade policy principles. We believe that the duty-free treatment provided in this legislation should, in the first instance, be extended to all countries on a most-favored-nation basis, on the condition that this duty-free treatment be made a part of the Kennedy round negotiations and that other major producing countries should be prepared to give similar treatment with respect to their imports of automotive vehicles and parts. If such reciprocity is not forthcoming, we would then be justified in denying those other countries most-favored-nation treatment with respect to the concessions made in the agreement with Canada. We recognize, of course, that the agreement is open ended, permitting other countries to benefit from its provisions provided they subscribe to all its rules. However, this is not quite the same as the most-favored-nation step which we are here proposing.

What we have recommended would make it easier to obtain a GATT waiver, permitting us to deny most-favored-nation privileges, if such a waiver should become necessary. Psychologically, having granted most-favored-nation treatment subject to reciprocity, we would be in a better position to get such a waiver in the event that reciprocity is not forthcoming. We also feel that such a tactic might have a stimulating effect on the overall prospects for a successful Kennedy round. Presenting these views regarding most-favored-nation and the possibility of making it conditional on satisfactory reciprocity received from other major suppliers does not mean that our committee no longer favors the general principle of unconditional most-favored-nation. We do favor this principle as being in the best interest of the United States and of the worldwide trading community. There are situations, however, and proposed free trade between industrialized countries is such a situation, where an exception from unconditional most favored nation might be justified.

Having outlined this proposed amendment in the foregoing paragraphs for the Finance Committee record, we would like to make it clear that we support the bill whether or not this recommendation is adopted.

TOLEDO, OHIO, September 17, 1965.

HON. HARRY F. BYRD,
Chairman, Senate Committee on Finance,
Washington, D.C.:

Dana Corp. is a major supplier to the automotive industry of axles, transmissions, universal joints, frames, piston rings, clutches, etc. We operate 23 plants in the United States and employ approximately 17,000 people. We have a 55-percent ownership in Hayes Steel Products, Ltd., of Thorold, Ontario, and 100-percent ownership in Perfect Circle of Canada in Don Mills, Ontario, we feel very strongly that the proposed United States-Canadian tariff agreement now under discussion before your committee, will, in the long run, be most beneficial to our company, to the independent parts producers in general and to the United States and Canada. We feel many of the statements made that the independent parts producers are protesting this proposed agreement are not altogether true. While some of the smaller and special interest companies have made loud and vocal protests, we do not feel this is necessarily the feeling of the major segment of the independent parts industry.

The agreement may result in some short-term problems and will tend to create some confusion initially. However, the long-term prospect of increased business, through growth, and the resultant efficiencies that will surely come about because of this proposed legislation. We believe, are benefits vastly outweighing the disadvantages. We feel strongly, also, that this is a much more palatable course of action than increased content requirements that can be imposed by the Canadian Government if this legislation is not enacted. With the deadline for achieving the action required by the Canadian Government by 1968 getting closer every day, we are faced with serious and pressing problems as to the proper course of action to take because the legislation has not been enacted. We, therefore, strongly recommend favorable Senate action as quickly as is practical. If this legislation is not enacted it will, in our opinion, have a very bad effect since some action has already been undertaken based on the prospect of its passage.

J. E. MARTIN,
President, Dana Corp.

(Whereupon, at 5 p.m., the committee recessed, to reconvene at 10 a.m., September 16, 1965.)

UNITED STATES-CANADIAN AUTOMOBILE AGREEMENT

THURSDAY, SEPTEMBER 16, 1965

U. S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room 2221, New Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd, Long, Douglas, Gore, Talmadge, Ribicoff, Williams, and Carlson.

Also present: Elizabeth B. Springer, chief clerk, and Thomas Vail, professional staff member.

The CHAIRMAN. The committee will come to order.

The first witness is Senator Gaylord Nelson.

STATEMENT OF HON. GAYLORD NELSON, A U.S. SENATOR FROM THE STATE OF WISCONSIN

Senator NELSON. Mr. Chairman, I appreciate the opportunity to present my views on H.R. 9042, the Automotive Products Trade Act of 1965, and on the Automotive Products Agreement which it is designed to implement.

It has been suggested that the bill and the agreement are really free trade measures. The House Committee on Ways and Means said the agreement would "remove the barriers to creation of a single North American industry," and intimated that the only respect in which the agreement fell short of complete free trade was that it did not cover replacement parts.

The facts do not appear to support that contention. The agreement, along with the collateral commitments made privately by the Canadian auto producers to the Government of Canada, may actually prove to be a greater restraint on free trade than the high tariffs on autos and auto parts which existed before the agreement was signed.

It would seem there are two respects in which the agreement falls short of free trade, in addition to the relatively minor matter of not including replacement parts. First, while all duties are removed on Canadian-made vehicles and parts for original equipment entering the United States, tariffs on goods entering Canada from the United States are removed only if the importer is an auto manufacturer who meets two criteria: he must maintain the ratio of the net sales value of the cars he produces in Canada to the net sales value of the cars he sells in Canada at a level at least as high as that which existed in the 1964 model year—for the major auto companies this is about 95 to 100, and the agreement sets a minimum ratio of 75 to 100; and he must

maintain the total Canadian value added in the cars he produces in Canada at a level at least as high as in the 1964 model year.

If this were all there were to the agreement, it would certainly be far from free trade, and at least objectionable on that ground alone; particularly since Canada is reserving in advance its own share of any future increase in the Canadian market, while the United States is throwing its own market completely open to free competition between producers in the two countries; but it might have been argued that the inequities were more apparent than real, since the greater efficiency of the U.S. producers freed them of any need to fear competition; and it might have been maintained that Canada had a legitimate right to require that autos to be sold in Canada be largely produced there.

However, there is another, and a far more restrictive side to the agreement—the "letters of undertaking" submitted to the Government of Canada by the Canadian subsidiaries of each of the four major auto manufacturers. While these letters are not formally a part of the agreement, they constitute an important part of its provisions, for the Canadian Government refused to sign the agreement until after they had been obtained.

These letters contain two important features; the companies promise to increase the total dollar value of their Canadian value added by at least 60 percent of the increase in their Canadian sales of automobiles, and 60 percent of the increase in their Canadian sales of the commercial vehicles specified in the agreement; and they further commit themselves to increase their total Canadian value added by an additional arbitrary amount, agreed upon between each company and the Government of Canada, from the 1964 to the 1968 model year. These latter amounts come to a total of \$241 million.

The U.S. Tariff Commission, in a report submitted to the House Committee on Ways and Means last April 23, calculated that the various provisions of the agreement and private commitments of the auto producers would require an increase of \$390 million in Canadian auto production from 1964 to 1968. The Commission estimated that if Canadian production were protected by the previous tariffs alone, there would be only a \$150 million increase in Canadian auto production in this period; even the Canadian duty-remission plan, which faced a threat of countervailing tariffs as a disguised export subsidy, would have increased Canadian auto production by only \$310 million, the Commission said.

These three figures are based on an assumed annual growth of 5 percent in the Canadian market for North American style motor vehicles. This means, very simply, that the Automotive Products Agreement, according to the estimates of the U.S. Tariff Commission, would by 1968 result in \$240 million worth of business each year being done by Canadian firms which would have been done by U.S. companies had neither the agreement nor the duty remission plan existed.

This plainly would not be the result of free competition. It would, rather, be the result of the highly restrictive measures contained in the Automotive Products Agreement and the collateral letters of undertaking by the auto producers.

Essentially, the agreement is a form of cartel. The auto companies, in specifying the amounts by which they will increase their Canadian production from now to 1968, have removed an element of free competition from the determination both of how the Canadian market is to be divided and of how production is to be divided between plants in the United States and those in Canada.

One Member of the House, in the floor debate on this bill, said:

There are two kinds of cartels—those trade agreements which benefit us are good cartels and those trade agreements which benefit others can be bad cartels, the latter are usually of European origin.

That statement is wrong in two respects. First, while a cartel may be of benefit to an individual firm, I do not believe that it is ever of advantage to the general public to place restrictions on free competition, as this agreement certainly will do. Furthermore, while this cartel may not be of European origin, it makes no sense to say that an arrangement which takes jobs from the United States and moves them to Canada is any better than one which would move them to Europe instead.

It was fully realized when this bill was drawn up that the effect of the Automotive Products Agreement would be to shift production and jobs from the United States to Canada. That is why there is a section in the bill to provide readjustment assistance. This section authorizes Federal assistance payments to firms which are forced to move their plants and to workers who lose their jobs because plants or production is shifted to Canada because of the agreement. If we must have this agreement, such assistance is vitally necessary; but no amount of readjustment assistance can make up for the fact that the total number of jobs available in the United States is being reduced because \$390 million worth of annual production of autos and auto parts will be shifted to Canada.

Some have argued that there will be no real loss of jobs from this agreement, because the agreement will make it possible to rationalize the auto industry to a greater extent, thus lowering prices and expanding the market, particularly in Canada. It seems unlikely that auto sales could be increased that rapidly, although it may be true. The fact is that we simply do not know.

The most imperative need Congress has is for more information about the economic effects of the agreement. We have the Tariff Commission's estimate that it will mean an increase of \$390 million in Canadian auto production; but that was based necessarily on a guess rather than a careful calculation about the increase in Canadian consumption. In fact, everything that has been said about the effect of this agreement is simply guesswork, made before adequate information was available.

Before the Senate comes to a final decision on the Automotive Products Agreement, the U.S. Tariff Commission ought to be asked to make a further study, this time based on a study of what has happened in the auto industry since the agreement was signed last January, and submit it to this committee. The retroactive provision of the bill means there is no need to rush passage; and the detailed and exact information which such a report could provide would greatly increase the ability of the Senate to take wise and considered action.

The CHAIRMAN. Thank you very much, Senator. We are always glad to see you.

Senator NELSON. Thank you.

The CHAIRMAN. The next witness is Mr. Alfred R. McCauley, Industrial Committee of Paducah, Ky.

STATEMENT OF ALFRED R. McCAULEY, ATTORNEY, REPRESENTING THE INDUSTRIAL COMMITTEE OF PADUCAH, KY.

Mr. McCauley. Mr. Chairman and members of the committee, my name is Alfred R. McCauley and I am with the Washington law firm of Graubard, Moskovitz & McCauley. We appear here today in behalf of the Industrial Committee of Paducah, Ky., a committee composed of representatives from the principal business, professional, and civic organizations in Paducah and its surrounding area.

Mr. Chairman, I ask permission to have inserted at this point in the record the names of the members of the industrial committee and the organizations they represent.

The CHAIRMAN. Without objection.
(The names referred to follow:)

THE INDUSTRIAL COMMITTEE OF PADUCAH, KY.

COMMITTEE REPRESENTATIVE AND ORGANIZATION

Gus Hank III, American Legion Post 31.
Edwin E. Ellis, Associated General Contractors.
Virgil R. Harris, Automotive Trades Association.
Ed Davis, Chamber of Commerce.
Dick Fairhurst, Greater Paducah Industrial Development Association.
Sam Sloan, Jr., or David Long, Junior Chamber of Commerce.
Warren Eaton, Kiwanis Club.
William H. Hicks, Kiwanis Club (South Side).
Edward R. Hulett, Kiwanis Club (West Side).
Wilfred Powers, Lions Club.
Asa Long, McCracken Oil Men's Club.
Joe Powell, Night Lions.
Charles Record, Optimist Club.
Lawrence Albritton, Paducah Association of Druggists.
Floyd Beard, Paducah Association of Insurance Agents.
John R. Anderson, Paducah Association of Life Underwriters.
Leon Searles, Paducah Electric Plant Board.
Jimmy Rieke, Paducah-McCracken County Growth Council.
George Sexten, Retail Merchants Association.
Morris McBride, West Kentucky Home Builders.
Fred Amnett, West McCracken Lions Club.
Chairman, Frank R. Paxton.

Mr. McCauley. The industrial committee's concern is with the economic well-being of the Paducah area which depends in large part on the continued operation in Paducah of a motor vehicle radiator plant operated by the Modine Manufacturing Co. This plant serves as Paducah's third largest employer with an annual payroll in excess of \$2 million.

The industrial committee sees in the whole program of which H.R. 9042 is a part a decided threat to the existing U.S. radiator markets of the Modine Manufacturing Co. and, accordingly, a grave threat to Paducah's economy. For this reason we are here today to voice our objection to passage of this bill.

Paducah's citizens in the past have expressed to the Federal Government their concern about threats to Paducah's economy. In the summer of 1964, as the members of this committee know, 10,000 Paducah citizens—almost one-third of the population—exercised their constitutional right of petition and asked the President and the Congress to use their good offices to see that the Paducah radiator plant was protected from a most unfair trade practice—the subsidization of Canadian motor vehicle and motor vehicle parts production and exports by the Government of Canada. Paducah's citizenry, as one asked their Government, to take affirmative action on a formal petition filed by the Modine Manufacturing Co. in April of 1964 which asked that the Canadian subsidy scheme be neutralized and offset by the imposition of countervailing duties by the Secretary of the Treasury, as required by section 303 of the Tariff Act of 1930.

This April 1964 petition, endorsed by thousands of Paducah's citizens, charged that Canada's subsidy scheme—started in 1962, enlarged in 1963 and in full bloom in 1964—constituted an unjustified, illegal economic invasion of the United States in violation of the provisions of section 303. The Treasury Department's investigation—triggered by this petition—clearly established that the Canadian Government's scheme of remitting duties paid on imports of certain automotive products into Canada, conditioned upon increased exports of Canadian-made automotive vehicles and parts, was in fact and in law the payment of a bounty or grant which section 303 required to be countervailed.

Mr. Chairman, it is at this point—when the Executive found itself faced with a clear case calling for action under section 303 against Canadian subsidized exports—that the history of last January's agreement begins.

As is quite proper and normal in such cases, the administration initially sought to persuade Canada to terminate the offensive subsidy program. The U.S. request was discussed at several conferences, most of which took place in Ottawa. But Canada adamantly refused to call off its raid on the U.S. market. It was reported that one reason given by Canada was the failure of the United States to react to Canada's 1962 trial subsidy scheme initiated in the fall of that year. Canada argued, in effect, that the U.S. silence on the 1962 scheme estopped our complaining about the full-bloom 1963-64 scheme.

Canada's firm rebuke of the U.S. request for Canada to cease and desist its unfair subsidization left the issue squarely up to our officials. They had to decide whether or not section 303's mandate would be dutifully obeyed, and Canada's unfair subsidy scheme neutralized by a countervailing duty order.

It was in the course of this decision process that the idea of a free trade agreement with Canada was conceived. Our officials saw such an agreement as the complete answer.

Senator GORE. Mr. Chairman, may I ask a question? Do you think "free trade agreement" is a proper description of this pending agreement?

Mr. McCATLEY. Senator Gore, I do not and if you will let me proceed for another few minutes you will see that I think that the present agreement is, in your words, the antithesis of free trade.

Senator GORE. Then you are only using some other party's descriptive term.

Mr. McCauley. Sir, I am doing more than that, if I might elaborate. I believe, firmly believe, that at the outset, when this problem of the section 303 mandate of Congress confronted the Executive, when they first went to Canada, I am convinced that they had in their minds a free trade agreement, something much different from what they ended up with.

Senator GORE. The point you make so far is that in your view the tariff remission plan or scheme, as one may choose to call it, was, in fact, an export subsidy by Canada to invade the U.S. market or vice versa to force further development in their own country.

Mr. McCauley. Absolutely, sir.

If we could get Canada to enter into an agreement with us, not only would the cause of trade liberalization be served, but also the cancellation of the Canadian subsidy scheme would be accomplished and action under section 303 would be obviated.

When the initial talks with Canada were held, there was no question that our negotiators had in mind a meaningful agreement on automotive products. Indeed there apparently was some concern that Canada might not understand and appreciate our real intentions. A U.S. official was reported in Canadian papers as having insisted at one of the early sessions that any agreement resulting from these talks was to be forthright and meaningful; there were to be no tongue-in-cheek Canadian concessions, et cetera.

But our initial resolve faded. Our determination to strike a meaningful trade agreement with Canada faded and our officials became obsessed with realizing one objective alone: The termination by Canada of its subsidy scheme so that the congressional mandate in section 303 could be legally ignored.

When the Canadian negotiators realized this, they acted accordingly. They placed on the table a whole series of demands which would guarantee Canada all of the economic gains which the subsidy scheme was to have accomplished and more. And at the end, when Canada had euhered us into the position of opening our markets to its producers while her own markets would be immunized against increased U.S. imports, Canada insisted that she would sign the formal agreement only after private agreements were obtained from Canadian auto producers. These private agreements, which our officials had not seen before part of them were released at the Ways and Means Committee hearings this spring, guaranteed Canada an even larger share of the U.S. market than it sought to get under the subsidy plan.

We acceded to all of Canada's demands. We agreed to open our market to increased Canadian competition. We agreed that Canada could extract trade restrictive agreements from the Canadian subsidiaries of the U.S. auto companies which would result in a sizable part of the U.S. market being taken over by Canadian production. And we agreed to these unprecedented public-private agreements affecting our trade without having seen copies of the agreements. We agreed to permit Canada to so condition her duty-free concessions that the concessions became a sham and a farce.

In return, we sought and received one concession. Canada terminated its subsidy scheme and thereby solved the problem which the

congressional mandate in section 303 created for our Government officials.

This committee must now judge the propriety and wisdom of this administration action. Our objective is to assist you in your task. We feel we can fulfill our aim best by utilizing our remaining time to point out to you some of the questions which this matter raises in our minds. I believe that our areas of concern coincide with those which will bother this committee after it completes its study and analysis of H.R. 9042 and the agreement to which it relates.

One of the first questions concerns the bypassing of the congressional mandate in section 303 of the Tariff Act of 1930. That section—on U.S. statute books for over 70 years—is an unequivocal directive to the Secretary of the Treasury to negate any and all foreign export subsidies. Was the decision to ignore this section made because the action which section 303 requires is distasteful to the executive? Apparently not. The administration has never sought its repeal.

Indeed, section 303 has been used with some frequency these past few years, even against another product whose exportation was being subsidized by Canada. Also, action under section 303 raises no GATT embarrassment; article VI of GATT permits our use of section 303 and neither requires nor suggests compensation for section 303 actions. In these circumstances, one has to ask why this law was not followed in this case.

One answer which has been advanced is that our action under section 303, regardless of our right to take it, would have been met by Canadian counteraction. Indeed, a trade war would have been triggered. Canada would have struck back. One or more U.S. industries might be crippled or severely hurt.

Why are we so certain that Canada would have retaliated? Was the administration told this would happen? Were the industries which were targeted identified? How was Canada to accomplish this? Did we study the Canadian threat and make an informed judgment that Canada really could hurt us? Did we conclude that Canadian retaliation against our automotive products exports, if these were to be objects of Canada's wrath, was politically feasible for the minority Liberal government? Would the Canadian consumer stand for even higher priced Canadian cars, a certain result should Canada ever insist on the use of even more higher cost Canadian parts in Canadian auto production than it now requires to be used?

Were there no GATT obstacles to Canadian retaliation against U.S. exports? Were we convinced that our oft-praised and lauded co-signatory to the GATT would indiscriminately violate GATT and wantonly disregard its GATT commitments to us and to the other GATT parties?

These are valid questions which must be answered. This committee ought not to accept the bare assertion that a trade war was the next step had our officials obeyed the law. This is a serious claim and those who make it should be made to back it up with facts.

Senator GORE. Are you a lawyer?

Mr. McCauley. Yes, sir; I am.

Senator GORE. Even if the Secretary of the Treasury had been convinced that obeying the law would touch off a retaliation by Canada, would that in any way excuse his disobeying the law?

Mr. McCauley. In my opinion; no, sir.

One member of this committee began last winter to ask questions about the manner in which this agreement has come to the Congress for approval. We thoroughly agree with the validity of his questions which, I might add, have not as yet been answered. Why was the constitutional treaty route not followed here as was done in the Florence agreement and the Beirut agreement? If an executive agreement was considered necessary or better, why was authority for the agreement not sought before the agreement was negotiated or even before it was concluded? Why this novel approach of presenting Congress with a concluded agreement? I use the term "novel" advisedly. It is disingenuous to argue that the approach taken here is precedented. A diligent search may uncover—back at the turn of the century—an apparent precedent in an isolated executive trade agreement entered into without prior congressional authority. But the bulk of the old—and all of the new—precedents demonstrate conclusively that executive agreements after congressional authorization is the exclusive rule, which has been consistently followed. What was the rush here? What exigencies demanded that time-tested procedures be scrapped?

I can make a guess, but this committee should not. The committee, the Senate has a right to know the answers to these questions and it must have the right answers before it can act on this bill. New ground is being broken here and the seed planted by this radical departure from the past will sprout into a "precedent-tree" unless some growth deterrent is applied forthwith.

It is clear that the formal agreement between the two signatory countries is a relatively minor aspect of the whole program before you. The private arrangements between the auto companies and the Canadian Government are the real warp and woof of this deal. Administration officials concede that these private agreements are "important." Then why, we ask, were their nature and contents so shrouded with secrecy both before and after the signing of the formal agreement? Why all the fanfare and noise about the formal agreement and scarcely a whisper about these "important" side deals?

Senator Gore. You are referring to these side deals as the agreements between the automobile companies and Canada?

Mr. McCauley. Yes, sir.

Senator Gore. For which the Government is not responsible but which you contend would be reinforced by approval of this agreement?

Mr. McCauley. Yes, sir.

Senator Gore. Right.

Mr. McCauley. Why, if their importance was realized by our officials, particularly the State Department people, were copies of these agreements not secured and made public at the time the formal agreement was released? Why did these officials insist that the content of these agreements was none of our Government's business?

Some of the letters which go to make up the private agreements have belatedly been made public, and I emphasize the word "some." These demonstrate clearly that the Canadian Government made sure that regardless of the tariff concessions it made in the formal agreement, its home market and its local producers would be fully immunized against any increased U.S. imports. Moreover, it secured firm commit-

ments from the auto companies that for the next 3 years Canada's share of the North American market would increase by about 25 percent over and above its share in the normal growth of this market.

But the full file on these agreements is not, even at this late date, before this committee. You lack the letters from the Canadian Government to the auto companies which apparently requested the letters of undertaking. The letters of undertaking themselves ask questions of Canada's Minister of Industry which must have been answered. Also, there are apparently interpretative rulings in existence which would be germane to any indepth analysis of the full extent of these private agreements. Finally, we ask if the private agreement file which now exists is closed, at least until the 1968 review of this program? Are the present agreements subject to change? Does our Government retain any control over any such change in the scope or content of these private deals, or do we still insist that this is none of our business?

No one, least of all this committee, can be asked to pass judgment on any matter without having full disclosure of all of the pertinent facts. I respectfully urge the committee to request the full file on these private agreements so that it can be fully informed before it acts. I also urge that you secure assurance that the files you receive are not subject to removal and substitution procedures before 1968.

The formal agreement, as the committee knows, runs counter to our time-honored policy of maintaining a single column tariff on free world imports. The agreement limits duty-free treatment to Canadian products, even resorting to that oft-condemned practice of defining Canadian products in terms of their percentage content of Canadian generated value.

Senator GORE. I would like to add that it goes further in specifications to require end use determination.

Mr. McCauley. Right, sir.

Senator GORE. In other words, if the imports from Canada are to be used by the automobile companies, they are tariff free?

Mr. McCauley. That is right, sir.

Senator GORE. But if they are to be used in repairing automobiles of the American people, then the tariff must be paid.

Mr. McCauley. Yes, sir, that is right.

Why are we scrapping most-favored-nation treatment here? Why can't we make these duty-free provisions generally applicable? Are we junking MFN, a policy we have initiated and championed throughout the world and one we are fighting hard for now in Geneva at this very moment, because we have had a change of heart? Is this the opening, the feeler for a most radical departure from past trade policy? Apparently not. Just a month or so ago the Honorable W. Michael Blumenthal, Deputy Special Representative for Trade Negotiations, said:

This leads to the fourth and in many ways the most important general principle underlying the negotiations. As I mentioned a few moments ago, one of our main stakes in the Kennedy round is the strengthening and extension of the pattern of liberal multilateral trade relations based on the most-favored-nation (MFN) principle. MFN, the concept that a concession to one nation is a concession to all and that, for a given product, all GATT countries have the right to be accorded the same treatment by importers, is the bedrock on which the present highly beneficial structure of world trade has been built. Stated

Inversely, MFN means nondiscrimination. We must not underestimate the importance and the value of this principle.

All the major industrialized countries are under pressures of various sorts, or have been tempted at one time or another, to depart from MFN in this or that area. We must resist this temptation. We must be particularly careful not to violate the MFN principle in our search for expedient solutions to immediate problems.

If Mr. Blumenthal had been talking about the Canadian-United States agreement, and scoring it in terms of the principle he was stating, he could not have made a more pointed or forceful statement about the evil of the United States-Canadian agreement's bilateral aspect.

What is the real reason for such a drastic change in direction? Why is it that Canada has extended its concessions generally, has granted most-favored-nation treatment? Why did we permit ourselves to be placed in the role of playing loose with our GATT obligations while Canada proudly proclaims that she is without sin? Did we agree to abandon MFN because Canada asked us to do it? If so, why? Is Canada granting MFN treatment to all Canadian auto producers, United States-owned and otherwise, to lure European or Asian producers to set up plants in Canada? And did Canada ask us to grant duty-free treatment only to Canadian products in order to enable Canada to offer Renault, Peugeot, and others a favorable United States tariff treatment on their Canadian-built cars which they cannot get if they remain in Europe and continue to sell to the United States from there? Are we parties to such a plan? If this committee were to recommend to the Senate—

Senator Gore. Do you maintain this could be done under this treaty?

Mr. McCauley. I think it could. It may involve a little oversimplification for me to explain it, but the way the Canadian plan operates is this: If you are a Canadian producer of motor vehicles and you qualify in terms of your production and your sales, you are given the right to import duty free the parts that you use in the production of those cars. If the Renault Co. were to now locate in Canada a production facility and were to be qualified, it could import parts from its home factory and construct cars in Canada, and if it satisfied the 50-percent test of H.R. 9042, by that I mean, if 50 percent or more of the value of the Renault-built cars in Canada was Canadian-generated value, then those cars would get duty-free treatment when they came into the United States.

On the other hand, the Renault car coming from Europe must continue to pay a 8½-percent duty.

Senator Gore. Would this be true of Volkswagen and others?

Mr. McCauley. Absolutely, sir, absolutely. It would be true of any non-United States producer who went to Canada and established a production facility.

Another interesting aspect of this is the fact that in the early days of the Canadian concern about their export markets, they followed a practice of making special deals with special companies. Volvo had a special deal. Now, the question might be raised as to how could Renault or Peugeot, who have no 1964 Canadian production experience, get into Canada, produce cars, and take advantage of this whole scheme?

My answer to that, sir, is the Canadians have never been short of answers to questions like that where it suited their purposes. If this committee were to recommend to the Senate that the bill before you be amended to require any reduced rates to be extended to all free world suppliers, would the State Department object? I urge you to consider such an amendment. At least we could save ourselves from some of the terrible embarrassment this agreement is now causing.

These are not idle inquiries. I am sure you agree. The Senate must have the answers before it can act.

Under the now-known present operations and future plans of the Canadian auto industry, thousands of Canadian-produced cars are now being or soon will be, sold in the United States market. These sales will be made at United States prices which are, of course, lower than Canadian prices. In other words, millions of dollars worth of Canadian cars are being, and increasingly will be, dumped on the United States market. The Senate must reflect long and hard on this. If it passes this bill, the Senate will have approved a dumping arrangement which will make prior alleged instances of dumping seem like small potatoes indeed. What effect will this deliberate excusing of a large-scale dumping operation have on administration policies under the Anti-dumping Act? Will a clue for a new and different approach be found in such action?

There are obviously other areas which are ripe for exploration, perhaps by this committee or even by other Senate committees. Is the approval of this agreement to mean that action under other laws—the countervailing duty statute or the antitrust provisions—is to be curtailed. As for the countervailing duty law, the elimination of the tariffs will effectively neutralize that avenue of redress. The statute does not apply to duty-free merchandise, as the committee knows.

Mr. Chairman, it seems to me that there is enough here to warrant a full committee inquiry into this matter. As days go on there may be more. Voices which are now still may speak if forced to by the passage of time. Permit me to quote from an article by Clive Baxter in the Financial Post of Canada, September 6, 1965, at page 18:

These have been nervous weeks for the (Canadian) officials running the program, while they wait for Congress to approve the United States end of the arrangement. Until it is approved, no one wants to say or do anything that could provide ammunition to the program's enemies in Washington.

Drury and his officials are fully convinced the program will work, that it will mean more jobs in Canada, (and) an improvement in our balance of payments But until Washington finally passes its legislation the order of the day in Ottawa is "silence."

I would like to leave with the committee a copy of this article. I regret not having more than one, Mr. Chairman.

It is argued that there is no time, you must act now. I should think the Senate would resent this pressure and would resist it. The administration had many months to prepare for and enter this agreement. The House has taken an additional 5 to 6 months in reviewing this matter. Indeed, the chairman of the Committee on Ways and Means pointed out on the House floor that he and his committee deliberated for the longest time in order to study just the initial effects of this program because they had many doubts. The bill has the distinct

tion of having passed the House where its chief proponents openly admitted that little commended its enactment and much indicated it should be studied further.

Why should the Senate be stampeded into action in just a few weeks time? The legislation is retroactive; no harm whatsoever will come from a delay until next year. But delay could reap a great deal of good. The time can be spent in searching into the areas I mentioned above, and others which I have not touched upon, so that proper judgments can be made. Since there is obviously further investigation necessary, it would seem fitting and proper for this committee to request a formal, objective study of the whole matter by the Tariff Commission. The Commission could report back at the beginning of the next session of Congress. Thus armed with an objective study, the committee will be better prepared to make the necessary judgments. I need not point out to this committee that such a referral of this matter to the Tariff Commission would be wholly consistent with past committee precedents. This committee has, on many occasions, wisely referred complex matters to that agency for study and report. If ever there was a proposal which needs study it is the one you have before you now.

Thank you very much for giving me this opportunity to appear.

The CHAIRMAN. Thank you, Mr. McCauley.

Any questions?

Senator GORE. I yield to Senator Talmadge.

Senator TALMADGE. No questions.

The CHAIRMAN. No questions.

Senator WILLIAMS. No questions.

Mr. McCAULEY. Thank you, sir.

The CHAIRMAN. The next witness is Harold Halfpenny, Automotive Service Industry Association.

STATEMENT OF HAROLD T. HALFPENNY, COUNSEL FOR THE AUTOMOTIVE SERVICE INDUSTRY ASSOCIATION

MR. HALFPENNY. Mr. Chairman, I am counsel for the Automotive Service Industry Association in Chicago, and I am accompanied by Mr. Allan Levine, the elected president of the Automotive Service Industry Association, from Lowell, Mass.

The Automotive Service Industry Association is an organization of the independent manufacturers and wholesalers in this country. We also have as associate members the independent manufacturers and wholesalers of Canada. We are vitally concerned in regard to this legislation, because we feel it threatens the very existence of many of our small parts manufacturers.

I said Mr. Levine is president. He has been actively engaged in this business and due to the questions indicating interest in the economic impact of this act I would like to have Mr. Levine make a short statement, and I would later submit my statement for the record.

The CHAIRMAN. Mr. Halfpenny, your statement will be inserted in the record following the oral statement of Mr. Levine.

Mr. HALFPENNY. (This is Mr. Allan Levine, our president, of Lowell, Mass.)

STATEMENT OF ALLAN L. LEVINE, PRESIDENT, AUTOMOTIVE SERVICE INDUSTRY ASSOCIATION

Mr. LEVINE. Mr. Chairman and members of the committee, my name is Allan L. Levine of Lowell, Mass. I am executive vice president of Towers Motor Parts Corp., a wholesaler of automotive replacement parts. I am appearing here today in my capacity as the elected president of the Automotive Service Industry Association. Our members are primarily interested in the replacement parts segment of the automotive industry with respect to this proposed adoption of so-called free trade in new vehicles and parts for installation as original equipment in new vehicles between the United States and Canada.

First I should like to state that the Automotive Service Industry Association is a national trade association speaking on behalf of the entire independent automotive service industry—from manufacturer, through distributor, jobber, and garage repairman. It has a membership of over 5,000 manufacturers, rebuilders, warehouse distributors, and wholesalers of automotive replacement parts, tools, equipment, chemicals, paint, refinishing materials, supplies, and accessories. Affiliated with it are Automotive Booster Clubs International, whose members are manufacturers' sales representatives, and Independent Garage Owners of America, whose members are engaged in the servicing and repair of automobiles. ASIA thus represents a combined direct and affiliated membership of approximately 20,000 automotive firms, located in all 50 States, and employing over 400,000 people in the automotive service industry.

This is my second appearance before a committee of the Congress on behalf of our association. Before the Ways and Means Committee of the House of Representatives, I testified on three main objections to enactment of the pending legislation—first and most important and the one to which I will direct the bulk of my remarks this morning is the fact that if this proposed legislation is enacted the competitive position of the vehicle manufacturers vis-à-vis the independent parts manufacturers in the struggle for control of the market of replacement parts would be strengthened.

With emphasis on primarily the independent parts manufacturers and those are manufacturers who are not wholly owned subsidiaries of vehicle manufacturers, we are very much concerned about the preservation of the independent parts replacement industry.

Senator GORR. You have just said that the passage of this bill would strengthen the automobile manufacturing companies.

Mr. LEVINE. Yes, sir.

Senator GORR. Competitively?

Mr. LEVINE. Yes, sir.

Senator GORR. Competitively with small business?

Mr. LEVINE. Yes, sir.

Senator GORR. Would you say conversely then that the approval of this agreement by Congress would weaken the competitive position of small business?

Mr. LEVINE. It definitely would, sir.

Senator GORR. Both with respect to replacement parts and original use parts?

Mr. LEVINE. Yes, sir, it would. I think that, as I proceed in my testimony, I can answer your questions and if you have any questions about the testimony I hope you will interject them.

Senator GORE. I will desist.

Mr. LEVINE. Thank you.

The second question which I raised as a matter of objection to this legislation in past hearings was that the increased imports from Canada would hurt our balance-of-payments problem. I think it is quite self-evident. The Canadians say enactment of this legislation will improve theirs and since this is a two-way street if it improves theirs it can only affect ours adversely.

Third, a matter mentioned by a previous witness there is no guarantee that parts imported duty free for original equipment would not end up in the replacement market.

Our legal counsel, Mr. Halfpenny, advises me that the Tariff Commission has held in previous occasions that it is practically impossible to determine the end-use of automotive parts once they have gotten into the chain of distribution.

Up to the time of the hearings before the Ways and Means Committee we in the industry were apprehensive about what the letters of intent between the Canadian Government and the Canadian subsidiaries of the American vehicle manufacturers contained. I might say that in the Canadian press as late as January 6, I believe, before the announcements of the agreement between the President of the United States and the Prime Minister of Canada, there were articles to the effect that an announcement on free trade was eminent but that it was being held up because of the fact that the vehicle manufacturers were hesitant about giving the letters of intent which the Canadian Government was apparently asking as a sine qua non before the so-called free trade agreement in these new vehicles and parts.

It was probably as a result of our demand that those letters be made public that this was done, because before the hearings of the Ways and Means Committee took place, when we asked about what was in these letters, the officials of the Commerce Department took refuge in the statement that what took place between the Canadian Government and the Canadian vehicle manufacturers was not properly their business, and so they had no way of knowing.

However, as a result of demands made before and during the hearings before the House Ways and Means Committee, the letters have been made public. I had a chance to review them this morning on the plane flying down from Boston, and their language is practically identical. Their content is identical, their aims are identical.

The vehicle manufacturers have agreed in total to increase production in Canada by about \$240 million per year beyond normal growth, and that this increase shall take effect by the end of model year 1968.

The sum of this expanded production will be consumed in Canada in line with the increase in the Canadian economy, the increase in the number of consumers and so on. But don't forget that this \$240 million per year is above normal growth and most of it, we feel, will have to be exported to the United States.

Now, where is it going to end up in the U.S. market for replacement of parts?

Let me point out, and here I would answer your question, Senator Gore, the independent parts manufacturer has two functions. He manufactures what is called OEM, or original equipment manufacture. He does this under contract, under a negotiated contract to the vehicle manufacturer. Annually the independent parts manufacturers negotiate with the vehicle manufacturers to supply their requirements for the coming year, let's say on sparkplugs. In one case, it used to be Champion sparkplugs with the Ford Motor Co., or oil filters, this sort of thing.

Second, the independent parts manufacturer distributes replacement parts for use on the vehicles after the original parts have gone out, and these he replaces generally through warehouse distributors or jobbers.

Let me insert here a comment or two about this.

If you buy a 1965 automobile, the chances are that you won't need many replacement parts for it before about 1967, and the peak time that you will need them and that we sell them will be from 1967 to about 1972. There is about a 5-year period, when an automobile is between 2 and 7 years old, that we have to have the merchandise on our shelves and moving. However, we also have to have it on our shelves from the day the new models are announced because very often a new part will prove to be defective, there are parts that wear out more rapidly and it is important for an independent manufacturer to be able to get his parts into the hands of the replacement segments of the industry as rapidly as possible.

In order to do this, in order to tool up generally, he has to know what kind of a part goes on there. He can't wait until the new automobile comes out and then rip off a muffler and duplicate it. So he works very closely with the vehicle manufacturer and he tries to get a contract to furnish some of the original equipment supplies and parts that a manufacturer will need, and the income he gets from his contract will offset his tooling costs and he will be in a position to supply the replacement parts market.

Let me also say this is an extremely complicated business because after a part is approximately 7 or 8 years old it is completely useless, if it would only fit one model year. Let's say an exhaust pipe for a 1957 Ford, for example. At this point, it is getting to be quite an obsolete part, and in order to keep the replacement parts wholesaler in business, a replacement parts manufacturer has to have a good obsolescence policy whereby he will take back a certain amount of obsolesces based on previous year's purchases and so on. So it is an extremely complicated business and one of the things that keeps the parts manufacturer going and able to supply the wholesaler is the fact that he can count on a certain amount of original equipment business.

He needs this OEM business to pay for tooling costs—to write off his capital investment, and this makes replacement business possible, as I have indicated, but it is our contention that the independent manufacturers can lose their original equipment business under the proposed legislation, because the vehicle manufacturer himself will now produce in Canada to fulfill his obligations to the Canadian Government under the so-called letter of intent.

Senator Gore. May I ask a question there, Mr. Chairman?

The CHAIRMAN. Senator Gore?

Senator GORE. You maintain then that if Congress approves this agreement the automobile manufacturers with whom members of your association have been contracting for the supply of individual parts will be enabled to build subsidiary plants in Canada.

Mr. LEVINE. Exactly what I mean, sir. This is exactly what I mean.

Senator GORE. And produce those parts at lower labor costs than prevail in the United States and then import them free?

Mr. LEVINE. That is exactly right.

Senator GORE. Duty free, to supply their own needs here.

Mr. LEVINE. You have anticipated my next sentence, Senator.

Senator GORE. I go to a question, though. If the individual suppliers in the United States—members of your organization—are denied their contractual relationship with the automakers, will not that result in higher costs of parts to the garages, to the auto supply stores, throughout the United States?

Mr. LEVINE. Exactly, sir; exactly, sir.

You see, it is our contention that in order for the vehicle manufacturers to reach this goal of an increase of \$240 million of export from their Canadian subsidiaries, they are going to have to produce in Canada to fulfill their obligations, they will either buy their original equipment manufacture from the Canadian independent parts manufacturers, or they will have to put up plants to manufacture things in their own subsidiaries in Canada, and then they will export them to the United States duty free for use in new vehicles.

The independent parts manufacturer in this country who had previously enjoyed that business will lose it, and because of higher tooling costs and the lack of this original market, it will result in the higher costs of U.S. replacement parts.

May I read you a news release which occurred in the Wall Street Journal, and this came out the day that we had the House Ways and Means Committee meeting hearing back in April. I thought it was pertinent. This was a news release from Chicago.

Mairmont Corp. said it is laying off 174 of 700 shock absorber production employees at its Cleveland plant. A company spokesman said that production in two of its Cleveland plants is being cut by 34 percent following the loss of Ford Motor Co.'s original equipment order.

Ford will make its own shock absorbers, the spokesman said. A Ford spokesman in Detroit said the company for some years has been making most of the shock absorbers used on Ford vehicles, subcontracting out only a small portion of the business.

I don't know that this happened but I think it is possible; that anticipating the enactment of this legislation the Ford Motor Co. could very well have expanded production of its shock absorbers in its Canadian plant for shipment to this country, replacing original equipment to the detriment of the parts manufacturer, and this is what I have in mind.

Above all, it will lead to a further concentration of economic power in the hands of a few giant corporations. Therefore, the objection raised by our association in the hearings before the Ways and Means Committee is still valid.

In debates before the House of Representatives, the Congressmen did not hesitate to call this arrangement a cartel, and some who favored the bill went so far as to call it a beneficial cartel, but a cartel all the same.

These debates in the House of Representatives are particularly enlightening in that so many of the Representatives who went along with the bill did so only after expressing extreme reservations and doubts about its wisdom.

That it is a bilateral agreement between two countries rather than a broad multilateral trade pact; that it is restricted to a particular industry, indeed to a certain segment of that industry; that it will require the requesting of a waiver from those countries that subscribe to the General Agreement on Trade and Tariff; that it involves a \$50 million a year subsidy by the Canadian Government to a favored group of factories in return for their increasing production in Canada, are just some of the doubts and reservations expressed.

This \$50 million a year subsidy, gentlemen, is the loss in revenue from the import duties that Canada is giving up by allowing free trade, and this \$50 million is going into the treasuries of the vehicle manufacturers who are concerned.

However, it is my understanding that under the provisions of the proposed legislation about the payments that will be made to the U.S. workers who may be displaced from their jobs under this arrangement, the money for that payment will come out of the U.S. Treasury. It might well be worthy of the consideration of this committee that any payments to workers come out of the treasuries of those who stand to benefit directly from it, and I refer to the Big Four of the vehicle manufacturers.

Senator GORE. Must you not add to that the duties, the U.S. duties, which would be forgiven by this agreement?

Mr. LEVINE. I would say, as a matter of principle, "Yes." I don't know what those duties are, Senator Gore.

Senator GORE. As the imports increase they would increase.

Mr. LEVINE. Yes. Yes; that is correct.

The only rational justification offered for support of this bill is that if the foreign policy considerations should outweigh economic justifications; and second, that the proposed bill will bring about a situation at least better than the one that prevailed immediately before when the Canadian Government was giving a bounty in the form of tariff rebates to manufacturers who increased their exports.

It may be that this is so, and if this committee comes to that conclusion, I would not be at all surprised, but intellectual honesty demands that the implementation of this agreement between the President of the United States and the Prime Minister of Canada be labeled for what it actually is, and not be permitted to masquerade in the name of something that it is not. It is not free trade. It is a special arrangement for the tariff-free importation of new automobiles and parts for new automobiles into Canada by vehicle manufacturers, all of them Canadian subsidiaries of giant American companies, in return for a commitment to expand production in Canada by some one-third by the end of model year 1968. It has been presented as an integration of automotive production on the North American Continent but it was designed to get around the necessity of imposing countervailing duties in response to a Canadian program of subsidizing exports and its result will be the further concentration of economic power in the hands of a few giant companies.

Representing as I do an association of independent replacement parts manufacturers, warehouse distributors, rebuilders, and wholesalers who are primarily concerned with the automotive aftermarket, who are specialists in having parts available at competitive prices for every make and model of passenger car and truck, who developed this business in the past 40 to 50 years, over the objections of the vehicle manufacturers, to fill a void that the vehicle manufacturers were themselves unable to fill, whose success and efficiency in supplying parts was so outstanding that the vehicle manufacturers belatedly formed special divisions for the distribution of replacement parts for all makes of vehicles, not merely for the vehicles they themselves manufactured, I must express the feeling of at least a majority of our members that this proposed bill poses a definite threat to the continued existence of the independent replacement parts industry, because it will strengthen the vehicle manufacturers in their efforts to increase their penetration of the market for replacement parts. It will encourage the vehicle manufacturer to make more original equipment and replacement parts in their own factories. It will eventually lead in short to a further domination of the automotive aftermarket by a few giant corporations.

Secretary of Commerce Conner, in the record of his testimony before the House Ways and Means Committee, is quoted to the effect that this bill will not hurt the independent manufacturer. I think the Secretary was poorly advised in making such a statement. The fact is that the independent manufacturer is extremely careful about taking any step that would jeopardize his standing as a supplier of original equipment material to the vehicle manufacturer, for the reasons which I intend to outline briefly.

The Big Three have endorsed this plan. The independent manufacturer does not dare to oppose it openly.

But if you want a real insight into the relationship that exists between the vehicle manufacturer and the independent manufacturer from whom the vehicle manufacturer buys component parts, may I refer you to the Wall Street Journal of July 19, 1965, in an article by Norman C. Miller, and I quote:

The powerful United Auto Workers Union is poised for an attack that could have a far-reaching impact on the major auto companies, the thousands of companies selling parts to the auto makers and the employees of the parts-making concerns.

The UAW's ambitious objectives in its new campaign will be to win Government backing for some form of control over the power the big auto companies have in negotiating prices for auto parts with their smaller suppliers.

Union leaders charge that the Big Three—General Motors Corp., Ford Motor Co., and Chrysler Corp.—increasingly are taking advantage of their huge buying power to foment "outbreak competition" among their suppliers so they can buy parts at unreasonably low prices. Moreover, the UAW charges the auto companies are making more and more of their own parts and are using the threat of further integration as a club to force suppliers to meet dictated prices.

The auto parts makers are likely to have mixed emotions about the UAW's campaign. On the one hand, the parts companies probably would welcome a letup in the pressure by the auto companies for low-cost parts. On the other hand, they are fearful that even if such a letup were achieved it would merely give the union an opening to gobble up the profit gains by demanding more expensive contracts. "In these power struggles between giants the little guy in the middle always takes the worst beating," says an official of one parts company.

May I respectfully ask this committee to take into account the adverse effect on the competitive position of the independent parts manufacturer that this bill would bring about before coming to a final decision. Let the record show that those who represent the independent parts manufacturers and their distributors presented to the Members of Congress and the Senate their objections to the bill so that the Congress could act with the knowledge of the possible disadvantages as well as the well-advertised "advantages" of this proposed legislation.

Thank you very much.

The CHAIRMAN. Thank you very much.

Mr. HALFPENNY. Mr. Chairman—

Senator TALMADGE. Mr. Chairman, before Mr. Halfpenny begins his testimony, I would like to ask a question or two of Mr. Levine.

I have received at least two telegrams from small manufacturers in my own State that produce molded and extruded rubber products.

Mr. LEVINE. Yes, sir.

Senator TALMADGE. They are concerned that they may be adversely affected by this agreement, that they may be forced out of business or be compelled to reduce their number of employees. Does your association also represent them?

Mr. LEVINE. Yes; if they are manufacturing parts made out of extruded or molded rubber for use in new automobiles or in the replacement market, we would represent them. For example, pedal pads are made of molded rubber, on your gas and brake pedal. Padding for arm rests, padding for the dashboard, rubber mats, replacement mats. Hoses that are used to supply a manufacturer of brake hose, such as the Eis Manufacturing Co., of Middletown, Conn., would buy probably from your company in Georgia. They would buy the raw material and produce it into brake hoses, part of which would go probably for original equipment. Most of it goes for replacement parts.

Senator TALMADGE. Would you tell me in what manner those industries would be adversely affected?

Mr. LEVINE. Yes, sir. They would be, or they could be adversely affected by the fact that they are supplying a great deal of their production under contract to the parts, the vehicle manufacturers, Ford, General Motors, Chrysler, and Rambler at the present time.

It is our feeling that in order to meet commitments the Big Three, who have promised the Canadian Government they are going to increase production in Canada under this agreement, they can set up a subsidiary corporation in Canada to produce exactly the same sort of thing with American efficiency and American know-how in Canada, and they will bring it down across the border duty free, and report to the Canadian Government. "We have produced \$500 worth of extruded rubber materials, mats, splashguards, one thing or another; this will apply against our commitment to increase our exports."

But the smaller manufacturer in this country, such as the one in your constituency, would no longer be able to compete because he could no longer be able to compete on the basis of quality or price.

The determining factor now becomes as Mr. Halfpenny well said, in his statement, before the Ways and Means Committee, the deter-

mining factor now becomes what is the decision in the manufacturer, how are they going to adjust to meet their commitments to Canada. They are no longer going to be guided by where they can get the best deal in the United States. They may have to pay even a little more to a Canadian manufacturer, but they will do this in order to fulfill their commitment to increase their exports from Canada.

Senator TALMADGE. Is it true that the Canadian manufacturers of molded extruded rubber products are not able to compete with their American counterparts?

Mr. LEVINE. I am not an expert on the manufacture of extruded rubber products to that extent. I would have to know more details before I could answer that question intelligently, Senator. I would say that in general, the parts manufacturers and the vehicle manufacturers in Canada up to the present time are not as efficient and cannot produce competitively with American manufacturers because of their limited market. It has been brought out in previous testimony, I think, that certain plants in Canada are trying to produce 50 different models of American-type automobiles to satisfy the Canadian market, whereas—let's say that was in Windsor, Canada. Across the river in Detroit, at the River Rouge plant of the Ford Motor Co., at the time this statement was made, that huge productive complex was devoted entirely to the production of three models of Mustang vehicles.

It stands to reason that a huge production run day in and day out without any changeovers to produce three models to satisfy the whole American market can produce more cheaply and efficiently than a small Canadian producer or a smaller subsidiary trying to produce 50 models to satisfy the vehicle market of Canada.

Whether an individual unit of Canadian production, given the same market, as this proposed legislation would give him, whether he would be as efficient or not, is a matter of which I have no expertise, but I would guess that he could become as efficient very quickly, especially if he had contracts from the original equipment manufacturing division of a Big Three manufacturer because they could throw their whole engineering force in here and say, "look, this is how we do it in Georgia, this is how we do it in Illinois, this is how we do it in Michigan, there is no reason why you can't do it up here."

Senator TALMADGE. How much less is the wage rate in Canada?

Mr. LEVINE. I believe it is about a 15-percent differential, Senator.

Senator TALMADGE. What I understood you to say, then, is that we would very likely, that is the automotive manufacturers, through their subsidiaries, expand their production in Canada to take advantage of this duty-free import and also the disparity in the cost of labor.

Mr. LEVINE. And also to fulfill commitments—you are absolutely right. But, in addition to fulfilling their commitment to the Canadian Government under the letters of intents which have been made a part of the record where they say that they intend to increase their export or their production of automotive parts and original and new vehicles in Canada by \$240 million over normal growth by the end of model year 1968. Because if they don't do that, they don't get the benefit of it, and when this thing comes up for renegotiation, the Canadian Government can throw it out and say, "The Big Four didn't live up to their commitment."

Senator TALMADGE. So the net result would be greater employment in Canada and reduced employment in Georgia and other States?

Mr. LEVINE. It is definitely the intent of the Canadian Government, as a result of this bill, to get increased employment in Canada. They are naturally not concerned about what happens in the United States. Our officials have made the point that if the market is increased sufficiently the bigger pie will cover our displaced workers who will go into other segments. This is a proposition which, it seems to me, is debatable.

Senator TALMADGE. Thank you.

No further questions.

The CHAIRMAN. Any further questions?

Senator GORE. I have some questions, Mr. Chairman.

Do you know of any reason why a Canadian assembly line with the benefit of American automotive know-how and with a lower wage rate could not produce as efficiently, as economically, and perhaps more so, than an assembly line in the United States?

Mr. LEVINE. There is no reason at all why they couldn't. Their main problem is the lack of a big enough market in order to get the continuous production runs. If they get them, I see no reason why they couldn't undersell.

Senator GORE. Well, isn't the division of the market so as to place in Canada large integrated production facilities the very purpose of the agreement?

Mr. LEVINE. It certainly is, sir. Because the agreement is the result of two former plans. You see, what happened was, that the city of Windsor, Canada, and this is all spelled out in magazine called Wards Automotive Reports, volume 1, section 2, which I will be glad to give you for the record—but from 1953 to 1957 Windsor, Ontario, which is right across the river from Detroit, suffered a loss of automotive facilities and in 1957, when we had a recession here in the United States there was a further erosion of automotive manufacturing in Windsor, Ontario. They got together with four other communities in that area, and they formed a committee to go to their Parliament to ask that something be done about it, which is a perfectly natural thing, and we would do exactly the same thing if we were in their position.

Now, these people came before the Department of Industry of the Government of Canada, and they held a series of hearings under the chairmanship of a man named Bladen—I believe he is a professor in a Canadian university—and he came up with a number of findings, one of which was, I believe, that the deficit in the Canadian export in the automotive market was somewhere between \$500 and \$600 million a year, and what they needed to protect their industry was an expansion of their exports. And as a result of this so-called Bladen report, by Professor Bladen, the Canadian Minister of Industry, whose name is Mr. Drury, came up with a plan to expand the exports of Canadian parts, and they did it by a deal which was announced in November of 1963, I believe, that if a manufacturer in Canada, a vehicle manufacturer, and only a vehicle manufacturer, if he expanded, increased his exports of parts or vehicles by a certain percentage, or I think by a certain number of dollars over the base period, which was the pre-

ceding 12-month period, then they would automatically take that amount of the increased exports and apply it against the duties which would normally have to be paid by the Canadian subsidiary for the import into Canada from the United States of so-called captive parts.

Now, a captive part is something that only a vehicle manufacturer makes because there isn't enough of a replacement market for it, and it just doesn't fit into the picture. For example, a captive part you have automatic transmissions, or you have axles, or you have crash hardware, or things like that, fenders, bumpers, that sort of thing. That the vehicle manufacturer had to send into Canada, no matter what the duty was, you see, and in order to stimulate his export they offered him a carrot and they said, "If you will increase your exports from Canada to the United States of things which you can make economically in Canada, then we will give you a rebate against the stuff that you have to import."

This, in effect, was a subsidy.

Senator GORE. This was a subsidy for the development of an automotive industry in Canada.

Mr. LEVINE. That is correct.

Senator GORE. You call that a carrot. We are all familiar with the tactics of both the carrot and the stick. It seems that Canada is experiencing the use of both.

Now, if this agreement is approved, is there any reason to believe that Canada will not further pressure for an increased content under the agreement, and is there any reason to doubt that they will not further use the carrot in various ways including tax concessions?

Mr. LEVINE. Here it is a subjective answer, Senator. I see no reason why they couldn't do it, and past experience seems to indicate they are willing to do it. I would like to ask counsel to answer it.

Mr. HALFPENNY. Senator, I would like to answer that.

I think this agreement is poorly drafted and the annex to this agreement which was discussed here before, is based upon the tariffs of Canada and there is nothing in this agreement that prevents Canada from changing those regulations on tariffs that is part of this agreement, so they can be changed, in my opinion, any time during this period, by changing the regulations that are made part, as an exhibit to the agreement that was drafted here.

Senator GORE. So even if this is approved, we cannot safely rely upon the projected increase in the Canadian share of North American automotive production. Both the stick and the carrot might be used to increase that.

Mr. LEVINE. I think that is right, Senator.

Senator GORE. Now, you referred a few moments ago to the fear of certain small businessmen publicly to voice their opposition to this agreement.

Mr. LEVINE. That is right.

Senator GORE. Now, I have been told this before, and I have been advised of it by Members of the Senate as well as by spokesmen for small business. No one has been able publicly to identify those who are stricken with fear. I will not ask you to do so, but I wonder if you could give us further enlightenment on it?

Mr. LEVINE. Well, I think it is quite obvious, sir, that while I as an elected official of a trade association have an obligation to my entire

membership to represent the view of the industry as a whole, there are always in any association, in any deliberative body, even in the Senate of the United States, there are differences of opinion, and I am sure that a great number of our manufacturers have in effect thrown up the sponge, and they have said, "You can talk all you want to, and you have to talk, and you have to get this on the record, but probably this thing may well go through, and if it does go through, why should I, as a manufacturer, stick my neck out by coming out publicly in opposition to this when I have a contract with the Big Three, and the word may trickle down to one of the members that so and so was a little too vocal in his testimony, and, therefore, the purchasing agent doesn't have to treat him too nicely the next time his agent comes around."

Senator GORE. Do you know of any instances in which a supplier who has voiced his objection, I will not ask you to identify such a party, but do you know of instances of suppliers who have lost contracts after having voiced their objection to this?

Mr. LEVINE. No, that I have no direct evidence of that. Perhaps Mr. Halfpenny has.

Mr. HALFPENNY. I would say they are too sophisticated to do that. When we are negotiating you always find you are always threatened unless you reduce prices, that they will further integrate and start manufacturing this product, and as Mr. Levine pointed out, it is necessary to get these tooling costs, if you can, so you have the specifications and so forth and it isn't done that crudely. I don't think you could definitely say that that would occur.

Mr. LEVINE. But I think you could definitely say that the fear of its occurring is very much in the minds of everyone in the replacement parts business.

Senator GORE. Mr. Halfpenny, you said a few moments ago in this agreement Canada had reserved the right to change their tariff regulations.

Has the United States likewise reserved such right?

Mr. HALFPENNY. That is one of the unusual features of this, it seems as far as I can see strictly a one-sided agreement. There is no safeguard put in here whatsoever as far as a U.S. industry is concerned, and as I pointed out in testimony in the House, where we analyzed it legally, the only thing that has been offered to American industry under this whole agreement is that they will give us some type of money for dislocation, and that the workers who are going to be laid off in this country would receive some kind of a deal, and we in the independent field feel that we have been able to compete with the Big Four very successfully over the years, and we feel that if the free economy is allowed to continue, we as small business people, can continue to compete.

But we cannot compete if the power of the Federal Government is given to the Big Four, and so we are concerned.

We do not want funds for dislocation, and we do not want to put our workers on a dole. We want to continue in the way we have in the past, where we have been able to freely compete, and over the years I think that the American public has been served well by the industry. We have been able to keep the wheels of this Nation moving through wars, troubles, and so forth, and it could not have been done except by

the independent manufacturers. And we are very concerned about this legislation.

Senator GORE. So you are saying now that while the Congress is asked to approve an agreement which is favorable to the Big Four, or Big Three, and which will adversely affect small business in the United States, which has the stated purpose of increasing the Canadian share of North American automotive production in a disproportionate manner.

Mr. HALFPENNY. That is correct.

Senator GORE. Which will mean a lessening of jobs in the United States, but at the same time we are asked to approve a program to pay out of the Treasury a dolo to those who lose the jobs as a result of it.

Mr. HALFPENNY. That is correct.

Senator GORE. If you were a Member of the Senate, would you vote for it?

Mr. HALFPENNY. I surely wouldn't. I can't as an American agree with it, and paradoxically, I would like to say there, Senator, we are appearing as of today before the Antitrust Committee that is holding hearings on the first floor of this building in regard to this problem of integration of large companies and dual distribution, which we are very concerned about and we are appearing there supporting such legislation due to the problems of integration in the automotive replacement industry, and you heard the witnesses from the Big Four, they have testified here, and the one subject they have talked about, this would allow for further integration, which is contrary to our antitrust laws in this country. This is establishing a cartel that we will be absolutely helpless to compete with, and you must remember that the Big Four are trying—as Mr. Lavine stated—to penetrate this replacements market. They are not only customers but competitors, and are becoming stronger competitors all the time in the replacement market.

This will give them added strength to further injure and it increases a trend toward monopoly.

And, as I stated in the House, it would seem to me if we are going to change our philosophy on antitrust, that it shouldn't be as a side-show to some kind of a tariff agreement.

Senator GORE. Thank you, Mr. Chairman.

Senator DOUGLAS. Mr. Chairman, may I ask one question?

The CHAIRMAN. Yes.

Senator DOUGLAS. Mr. Halfpenny, in your discussion of the so-called Canadian tax remission plan, did I understand you to say that there was a credit of dollar for dollar, that for every added dollar of parts exported there would be a dollar of tariff duties forgiven?

Mr. HALFPENNY. That is correct, Senator.

Senator DOUGLAS. Then on every dollar of tariff duties forgiven there would be a dollar of added profit, would there not?

Mr. HALFPENNY. That is correct.

Senator DOUGLAS. But on every dollar of added parts sold the profit would only be a relatively small fraction of that?

Mr. HALFPENNY. That is right.

Senator DOUGLAS. So that they would receive back in money much more than the profits forgone.

Mr. HALFPENNY. That is right. So the more they imported—they were making more money on the subsidy than they would on the parts

themselves and, of course, that is why we filed under section 808 for, under the Tariff Act, to have countervailing duties, and as a lawyer I am very concerned about the fact that we didn't enforce the law. I mean our basic philosophy is that we are a nation of laws. Now, if we are not going to enforce some laws against some companies and enforce them against others, then we are changing our whole basic philosophy in this whole matter.

Senator GORE. Who was Secretary of the Treasury at that time?

Mr. HALFPENNY. I believe it was Mr. Dillon.

Senator GORE. I believe it was, too.

Mr. HALFPENNY. Mr. Chairman, may I have the permission to insert in the record my statement that I had submitted, and I also had sufficient copies of the statement that was made before the House that is available. There is only one thing I would like to say in conclusion.

We would like to have this Senate, if they will consider this, if they will do this, that article 5 of the agreement, which provides that other agreements may be accorded similar terms, surely should be stricken if this whole agreement, we feel should not be passed. Also, we would have to join and support Mr. McCauley that the committee look further into this whole matter because of the implications of antitrust and other matters and if they see fit not to do that then we would also want to support the United Auto Workers position that this should not be a windfall to the vehicle manufacturers, that this amount that—of the reduction of tariffs in Canada that there should be some basis that this should not be just a windfall to the manufacturers and the Canadians alone will have the benefit of decreased costs of vehicles.

Senator DOUGLAS. Mr. Halfpenny, you heard my cross-examination, didn't you?

Mr. HALFPENNY. Yes, I did.

Senator DOUGLAS. Isn't it clear there has been no reduction of price in Canada and it is the declared intention of the head of Chrysler Canada not to give any reduction in price?

Mr. HALFPENNY. I don't think there is any question about that. And I think it was the intention of this agreement that this windfall of some \$50 million be given to the vehicle manufacturers so they could build plants on that basis in Canada.

And I would like to call your attention, Senator, to my request of the House Ways and Means Committee, on page 303 of that printed hearing, where I noted by letter that we had received the answers that the vehicle manufacturers had given to Canada, but there is no background material, and Mr. McNeill yesterday indicated there were some drafts of some kind given to the vehicle manufacturers, in his testimony. Yet they replied in a letter requested from the House Ways and Means Committee a statement by the State Department stating on page 303 of that testimony—

Senator DOUGLAS. Would you wait just a minute?

Mr. HALFPENNY. They make this statement:

The committee through its staff, has asked the Department to provide the committee with letters from the Canadian Government to motor vehicle manufacturers to which Mr. Harold Halfpenny refers in the last paragraph of his letter to the committee on May 5, 1905. The Department understands that there were no letters of the kind to which Mr. Halfpenny refers.

I had no special kind of letters, but I think this committee should have this complete background of what occurred.

Here are private companies that are subsidiaries of American companies, privately negotiating with a foreign government. There must have been some material that we should all know about, and for some reason it has been kept a great secret.

Senator DOUGLAS. You know, these secret agreements are very mysterious. Maybe the Department of State is technically correct in saying that letters from the Canadian Government to Ford and others were not written, but certainly conditions were stated.

Mr. HALFPENNY. That is correct.

Senator DOUGLAS. And I think this is, again, an illustration of the technical defense which obscures the real facts.

Mr. HALFPENNY. Right. I think this committee should have all the facts and all the background, who was present, what was said, and what was done.

The CHAIRMAN. Any further questions?

Mr. Halfpenny, your written statement will appear in the record at this point. The insertions you request will be made.

(The document referred to follows:)

STATEMENT OF HAROLD T. HALFPENNY, COUNSEL FOR THE AUTOMOTIVE SERVICE INDUSTRY ASSOCIATION.

My name is Harold T. Halfpenny. I am an attorney at law with offices at 111 West Washington Street, Chicago. I am appearing on behalf of the Automotive Service Industry Association, the members of which are vitally concerned with this proposed treaty. The Automotive Service Industry Association is a national association with a membership of over 500 manufacturers and 5,000 wholesalers of automotive parts, accessories, supplies, and equipment. In our opinion, the legislation which you are now considering, for reasons which will appear later in my statement, threatens the very existence of hundreds of small automotive parts manufacturers located throughout the country.

The trade agreement which this legislation would implement was considered by the House Committee on Ways and Means last spring; I made a statement before that committee on April 28, 1965. At that time, I had spent many months considering and analyzing both this treaty and its predecessors, and the statement which I made was the result of careful thought. I am therefore presenting that statement herewith for your convenience, and shall merely summarize it here. (References to "H.S." are to the House statement.)

The present plan is that Canada will allow vehicles and parts for original equipment to be imported free of duty by a vehicle manufacturer, provided that the manufacturer (1) increases or maintains his Canadian production as compared to a "base year"; and (2) maintains or increases the "Canadian added value" of the vehicles. On the other hand, the United States will allow the duty-free importation of motor vehicles and parts for original equipment, with no other restrictions (H.S., p. 4).

The dangers inherent in this plan to independent manufacturers result from several basic facts (H.S., p. 2):

First, though the phrase "Canadian automotive manufacturers" is used as though these were a special category, they are actually subsidiaries of the U.S. motor vehicle manufacturers.

Second, U.S. vehicle manufacturers are to some extent customers of independent parts manufacturers for original equipment parts.

Third, U.S. vehicle manufacturers are, particularly in recent years, extremely active in the replacement market, and are accordingly growing competitors of the independent parts manufacturers.

Fourth, the major vehicle manufacturers have agreed with the Canadian Government that they will increase the Canadian value added by \$241 million within the next 8 years (H.S., p. 12).

The effect of this combination of factors seems plain (H.S., p. 14). It seems likely that the Canadian subsidiaries of the U.S. manufacturers will import duty

free from the United States the "captive" parts produced by their parent companies. At the same time, in order to maintain the Canadian added value of the vehicle, and fulfill their commitments to the Canadian Government, they will increase their purchases of Canadian-manufactured parts, which are now purchased from only independent manufacturers.

We submit that this bill is contrary to the spirit of the antitrust laws of this country in that it tends to create a monopoly, requires the continuing cooperation of the major vehicle manufacturers with one another, and is aimed at achieving a planned economy rather than one governed by competition. (H.S., pp. 9-11). It should be carefully examined from those standpoints by this committee.

Beyond that, Congress and the public should be thoroughly acquainted with the contents of the agreement between the Canadian Government and the vehicle manufacturers, who appear to have been engaged in a kind of private treaty-making activity. Since treaties are the special province of the Senate, it is to be hoped that this committee will give that aspect of the matter careful attention, even though the agreement is not a formal "treaty."

On April 28, when the attached statement was made to the House Committee on Ways and Means, documents which had been called letters of undertaking on the part of the vehicle manufacturers, setting out their promises to Canada, had not been made public. Later, these letters were submitted to the House committee.

Although the letters thus tardily made public revealed in part the commitments made by the manufacturers to Canada. However, they contained references to earlier communications between themselves and the Canadian Government which it seemed to me were essential to a complete understanding of the transaction. Accordingly, I wrote to the chairman of the House committee as follows:

"LAW OFFICES,
"HALFPENNY, HARN & RYAN,
"Chicago, Ill., May 8, 1965.

"Hon. WILBUR D. MILLS,
"Chairman, Committee on Ways and Means,
"House of Representatives,
"Washington, D.C.

DEAR MR. CHAIRMAN: On Tuesday, April 27, you directed that the letters of undertaking from four vehicle manufacturers to the Canadian Government be printed and made available to interested parties. This directive has shed additional light on the whole United States-Canadian automotive trade agreement, for which we are grateful.

However, Mr. Chairman, we note an amazing, almost word-for-word similarity among the letters. We also note that the letter from General Motors of Canada, Ltd., states 'This letter is in response to your request for a statement.' Further we note that the Ford Motor Co. of Canada, Ltd., letter of January 14, 1965, states, '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.'

"We believe, Mr. Chairman, that the letters of undertaking can be evaluated soundly, only in the light of the request from the Canadian Government. As it now stands, we know the answer, without knowing the question.

"Please note also that the word 'undertaking' is equivocal, and ordinarily means something more than a mere 'statement of intention.' Thus, Webster's International defines it as a 'Promise or pledge; a guarantee.' Ballentine's Law Dictionary agrees, defining it as 'A promise to perform some act; a bond; a recognizance.' It is used technically in the law to mean a promise in writing given as security for the performance of some particular act required in a judicial proceeding (90 O.J.S. 1062).

"Accordingly, we request that the letters from the Canadian Government to the motor vehicle manufacturers be made part of the record and available to all interested parties. In addition, we request the letter of commitment from the parent Ford Motor Co. be made part of the record and available to all interested parties.

"Sincerely yours,

"HAROLD T. HALFPENNY"

The response to this letter appears at page 303 of the printed record of the House hearings:

"STATEMENT BY THE DEPARTMENT OF STATE

"The committee, through its staff, has asked the Department to provide the committee with 'the letters from the Canadian Government to the motor vehicle manufacturers' to which Mr. Harold T. Halfpenny refers in the last paragraph of his letter to the committee of May 5, 1905. The Department understands that there were no letters of the kind to which Mr. Halfpenny refers."

In my opinion, this is a far from satisfactory answer to my inquiry, and urge this committee to obtain all the background facts and information, not merely just what the interested parties want to reveal.

In summary, we urge that the Senate reject this legislation as a plan aimed at "rationalized production," contrary to the spirit of our antitrust laws and to the concept of free competition which has always been the cornerstone of our economic philosophy. Under this plan, the distribution of parts will depend upon which parts the vehicle manufacturer has decided to purchase in one country as opposed to the other in his effort to maintain his duty-free status in Canada and use it to the best advantage. (H.S., p. 14.)

The legislation here, presented as a simple tariff matter, is actually a drastic departure not only from the antitrust laws, but from previous tariff policies (H.S., p. 7). It also involves a private agreement between a foreign government and private corporations. For all of these reasons, it should be rejected.

Mr. HALFPENNY. Thank you, Mr. Chairman. Thank you very much. We appreciate this opportunity.

The CHAIRMAN. The next witness is Mr. Keith T. Middleton, Anti-friction Bearing Manufacturers Association.

Mr. Middleton, unfortunately I have to go to another meeting and I will not be able to listen to your testimony which I will read. I would like to announce the schedule for Monday. The committee will recess until Monday morning, September 20, at 10 o'clock, at which time the Secretary of Labor Wirtz will be available for further questioning. The committee also will hear testimony from the U.S. Tariff Commission. An official spokesman of the Treasury will be available to answer questions regarding the U.S. balance of payments.

Senator RIBICOFF. Mr. Chairman, before you proceed, may I welcome Mr. Middleton, one of the leading citizens of the State of Connecticut who I have known for many years and who I respect, and I am pleased to see him before the committee today.

STATEMENT OF KEITH T. MIDDLETON, VICE CHAIRMAN, ANTI-FRICTION BEARING MANUFACTURERS ASSOCIATION

Mr. MIDDLETON. We will have a very short statement. We think we have a somewhat different position to present here than has been presented by a number of your other witnesses.

Senator DOUGLAS. Mr. Middleton, will you continue?

Mr. MIDDLETON. Thank you, sir.

My name is Keith T. Middleton. I am appearing here officially as vice chairman of the Antifriction Bearing Manufacturers Association, a group of manufacturers who make ball and roller bearings. Unofficially, I am appearing here as the president of the Fafnir Bearing Co. I guess the largest independent ball-bearing manufacturer in this country, and perhaps the world. We have 5,000 employees here in this country; we have about 2,000 abroad. We wish to preserve the jobs of the 5,000 here and do not wish to add to the jobs of the 2,000 abroad.

The bearing industry is one which produces approximately \$1 billion

worth of product here in this country. It employs roughly 50,000 people; it is vital to national defense, as you will recall, during World War II, when we lost many, many hundreds of planes and many thousands of personnel attempting to eliminate this industry in Germany.

Could I express first our appreciation for the opportunity to state our views on this trade legislation. We feel strongly that the inclusion of bearings in H.R. 9042 will have a serious impact upon this most vital domestic industry.

The demands of our complex industrial society require the application of bearings in a staggering number of types, varieties and sizes. To fulfill these needs, the domestic antifriction bearing industry produces over 100,000 different bearings, ranging from microscopic specimens suitable for complex electronic gear to gargantuan bearings designed for steel and paper mills. Practically everything that moves provide application either real or potential for our products.

The principal consumer of bearings, however, is the automotive industry, where original equipment needs account for about 18 to 20 percent of U.S. consumption. Ball and roller bearings are used in the following automotive applications. You will note at the end of our statement we have a diagram of an automobile which indicates the locations that I am about to mention:

1. Front and rear wheels.
2. Clutch assemblies.
3. Transmissions.
4. Differentials.
5. Drive line (universal joints).
6. Steering gear assemblies.
7. Alternators and generators.
8. Variable speed fan drive.
10. In all power accessories.

Anywhere from 80 to 60 different bearings are necessary components in the manufacture of an automobile, and abroad they use more than that, more than they do in this country due to some differences in construction.

With such varied and multiple applications, it is readily apparent that any change affecting the trade in bearings for use in automobiles will have a profound reaction on the domestic industry. Imported bearings at present are accorded a concession rate of duty of 8.4 cents per pound plus 16 percent ad valorem. Under this duty rate, imports of Canadian bearings have grown from \$380,000 in 1958 to \$2.4 million in 1964, an increase of 650 percent, and Canada now ranks as the third largest supplier to the United States.

I might say parenthetically that this increase in Canada is relatively miniscule when compared to increases from Japan. And as previous witnesses have testified this legislation lends itself to the use of Canada by foreign producers in Japan and elsewhere to avoid part of the duty on bearings and other items coming into this country.

Canadian bearing manufacturers, contrary to what might be the case in other industries, have the automatic machinery and the technical know-how as good as or better than U.S. producers and can produce the same number of bearings in a given time as U.S. producers. Domestic producers are already at a competitive disadvantage even despite the existing duties because of a substantially lower labor rate

in Canada than here. Labor costs are a very high factor in the production of these high precision bearings.

While the cost of producing complete automobiles in Canada reportedly is 15 percent higher than in the United States, this is not the case with bearings. The elimination of the duty on Canadian bearings through the deceptively simple labelling device of calling them automotive parts would only compound an already injurious situation caused by increased imports.

Many of the bearings imported from Canada are for automotive uses both as original equipment and replacement parts. To withdraw the duty absolutely would have the effect of a magnet in attracting increased imports of these types of bearings into the United States.

Increased imports of bearings will intensify an already alarming trend. The high level of imports of bearings in the size ranges of automotive bearings led the domestic industry on October 16, 1964, to apply to the Office of Emergency Planning to conduct an investigation under section 232 of the Trade Expansion Act of 1962. This investigation, which is still pending, is to determine if imports of bearings are in such quantities, and the trend is such as to threaten national security.

There is a book by an author Martin Caldin, called "Black Thursday" which is the story of bombing raids on Regensburg and other locations in Germany in World War II which if anyone were interested to see, I would be very glad to provide. It underscores the probable well-known importance of this industry to national defense.

It is important to note that most bearings, particularly those for automotive uses, are universal or multipurpose items. Relatively few are unique to the automotive industry. In other words, the same bearing could be used in tanks, weapons carriers, portable tools, electric motors, agricultural equipment, off-highway equipment, and aircraft, to name only a few other applications. The front wheel bearing in an automobile can be used in conveyor idlers, industrial gear motors, industrial speed reducers, farm machinery, gear boxes, power takeoffs, and transmissions. Alternator bearings, which are single row deep groove bearings, have the largest use of any bearing manufactured.

The fact that most all bearings possess no unique characteristics which would indicate that any of them are used primarily in connection with automobiles has been clarified by two recent actions of our Government.

After extensive investigations by the Excise Tax Branch of the Internal Revenue Service, Revenue Ruling 65-42 (also released as TIR 691, dated February 10, 1965) was released clarifying the applicability of this manufacturers excise tax to ball and roller bearings. This ruling stated in part:

Where ball and roller bearing have a multiplicity of uses but possess no unique characteristics of construction, design, or material which would indicate a use primarily in connection with taxable motor vehicle articles, they are not automobile "parts or accessories" within the meaning and intent of section 4061(b) of the code (Internal Revenue Code of 1954) and the applicable regulations. Accordingly, sales by the manufacturer of such bearings are not subject to the manufacturers excise tax on automobile parts or accessories.

If bearings used in an automobile are not considered by the Internal Revenue Service as taxable as parts of an automobile, then it would

seem clear that these same multiple use bearings should not be considered as fabricated components or as "parts of automobiles" for the purposes of the Canadian Trade Agreement and allowed duty-free entry into the United States.

The Tariff Schedules of the United States, with which I am sure this committee is familiar, has as one of its basic principles that if there is a specific provision for a universal use part, it should be so classified for duty purposes. This principle was recognized by this committee when it reported out H.R. 7969, the Tariff Schedules Technical Amendments Act of 1965.

Although it was unknown to the domestic industry until last year, integral shaft bearings imported from Canada for use in automobile water pumps had been classified as parts of automobiles, incidentally, carrying a duty of 8 percent instead of more than double duty that bearings, other bearings, were and still are carrying.

This classification was contrary to the parts principles of the TSUS and the Finance Committee emphasized that these articles must be classified as "bearings," not as parts of automobiles, and included section 86(d) in the bill to clarify this point.

To once again lump bearings in as parts of automobiles for the purpose of this legislation would run contra to this now well-established principle.

Although H.R. 9042 gives the President the authority in future trade agreements to extend duty-free entry to replacement parts, according to our legal advice, and contrary to the implications contained in some portions of the report of the House Ways and Means Committee, the present agreement is intended to cover only original equipment parts. The bill, however, gives the President the power, according to our interpretation and the section is 202(b) on page 8 of the printed copy, to include in the future bearings imported into this country not only for incorporation as original parts but for use as replacement parts when the original parts have worn out. This is borne out, the intent of this is borne out, on pages 8 and 9 of the report of the House Ways and Means Committee referring to this section of the bill.

It is understood that the present trade agreement provides for a certifying procedure so that automobile manufacturers can sign a certificate that they are importing the parts for original equipment purposes. However, since bearings are of a multipurpose nature, they are particularly susceptible of being diverted to other uses or finding their way into the aftermarket.

Hopefully the motor vehicle manufacturers would not indulge in diversion of bearings imported as original equipment parts. But policing of this by the Government is well nigh impossible. Should this type of market penetration take place, the effects on U.S. bearing producers are obvious. Prices here would become depressed and in many cases this cannot be afforded in terms of a reasonable profit to the U.S. producer. Already the concept of duty-free Canadian bearings is being used by American motor vehicle manufacturers to exact a lower price from American bearing producers.

What ball and roller bearings would be considered to be of Canadian manufacture? Under the bill, bearings would be considered "Canadian" excluding only those bearings where the materials used in the bearings and imported into Canada (other than from the

United States) have a Canadian port of entry import cost (exclusive of Canadian duty and landing cost) of only more than 60 percent before December 31, 1967, and 50 percent thereafter of the U.S.-appraised custom value when imported into the United States. From this it is quite obvious that it is more than Canadian interests which threaten the U.S. bearing producers. A bearing producer from any other country can open an assembly plant in Canada, import their finished components to a U.S. value of 39 percent, or later 49 percent, and ship, duty free, completed bearings to auto manufacturers in this country.

There have been reports in the press which may have no foundation that this type of operation has already been conceived of and discussed in Japan. In view of already—

Senator DOUGLAS. Do you have those questions, Mr. Middleton, from the press?

Mr. MIDDLETON. I do not have them with me, Senator. I will obtain them and furnish them to you.

Senator DOUGLAS. Provide them for the committee.

Mr. MIDDLETON. Yes, sir.

Senator GORE. May I interject whether we know or do not know of such plans? If Congress passes the bill authorizing it and making it possible, should we not be forewarned that such is likely to occur?

Mr. MIDDLETON. My best answer to you, Senator, is that I flew back from England to attend this hearing this morning, and I asked our plant over there what they had done to consider the implications of this legislation should the bill be passed and should these events that we are discussing as possibilities take place.

I am referring back now to my original statement when I said that I would prefer that the additional 5,000 people we have in this country rather than the 2,000 that we have in the United Kingdom. There is no question—

Senator DOUGLAS. Did you find them alert to this possibility?

Mr. MIDDLETON. I am sorry to say they really hadn't thought of it.

Senator DOUGLAS. But you gave them that idea?

Mr. MIDDLETON. This is what I am paid for, among other things.

Senator DOUGLAS. Marianna Moore wrote a poem many years ago in which she said she had often entertained a peculiar wish to be alternately man and fish, both to fish and for the fish to try to evade the hook. So I take it you have been serving in a dual capacity.

Mr. MIDDLETON. Strangely, Senator, a lot of us find ourselves in that position a good deal of the time.

Senator DOUGLAS. I understand.

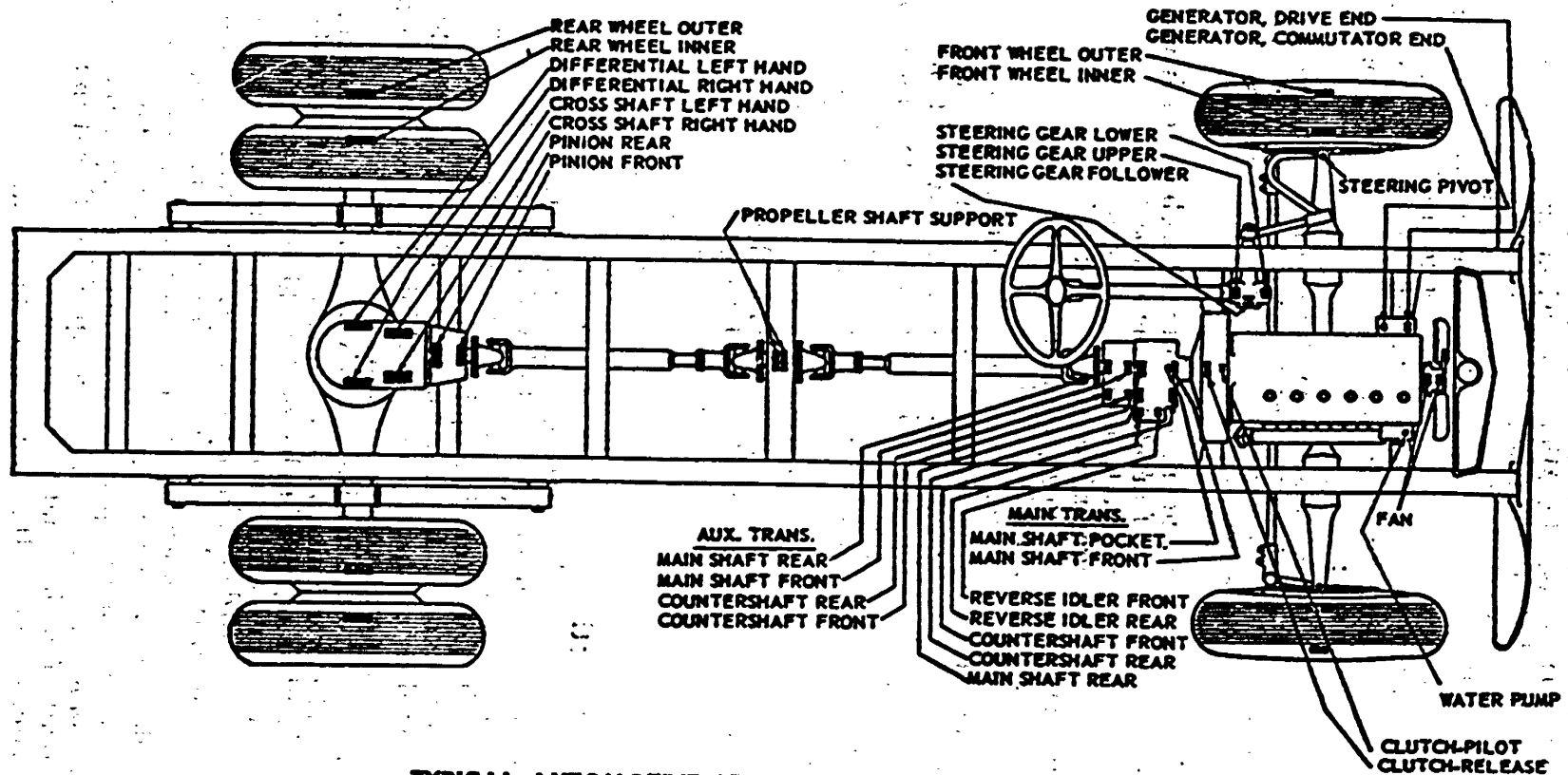
Senators sometimes find themselves in that position.

Mr. MIDDLETON. In view of already severe and adverse competition to the U.S. bearing manufacturers, particularly from Japan, this new legislation would add more "fuel to the fire."

For the above reasons, the Antifriction Bearing Manufacturers Association strongly urges that the committee amend H.R. 9042 so as to strike TSUS items 680.31 and 680.36 from page 28 thereof, thus removing ball and roller bearings from the list of articles to which the bill would apply.

Thank you very much.

(The "typical automotive bearing application" referred to follows:)



TYPICAL AUTOMOTIVE BEARING APPLICATION

Senator LONG (presiding). Senator Douglas?

Senator DOUGLAS. Mr. Middleton, when one of the Government witnesses was before us I asked him the question of who would differentiate between parts for original vehicles and parts for replacement, and he replied that the manufacturer would certify that it was to be used only for original vehicles and not for replacement.

Now, I notice that at the end of page 6 you seem to have expressed in very polite language your doubt as to whether this would be effective because you say:

However, since bearings are of a multipurpose nature they are particularly susceptible of being diverted to other uses or finding their way into the after-market. Hopefully, the motor vehicle manufacturers would not indulge in or permit such practices but policing by the Government would be nigh unto impossible.

This could only be done if the manufacturers broke their word. Are you saying that you are fearful that this will be done?

Mr. MIDDLETON. I would not go so far as to accuse any automobile manufacturer of engaging in practices of this sort. Certainly not any of the majors. Strangely enough—

Senator DOUGLAS. There are only four.

Mr. MIDDLETON. Strangely enough they define in the bill an automobile manufacturer as somebody who has the capacity to produce 10 automobiles in a year. I do not know exactly what the reason for that definition was, but it could include fronts for people whose main business is importing bearings, the type of people who have caused us a good deal of trouble in connection with, well, some surplus bearing deals, for example.

Senator DOUGLAS. The four produce, I believe 99.9 of all the automobiles in the country, maybe a few such as the Brewster Works which used to be out on Long Island and have a few custom-built cars but on the whole, the big four, you say you don't distrust them. Then this is a danger which is applicable only, let's say, to one one-hundredth of 1 percent of the industry. For this to be an effective argument, you would have to mean there would have to be leakage from the big four or the big three.

Mr. MIDDLETON. May I point out, Senator, that I have also called attention to a provision of the bill which permits the President, as we interpret it, to extend its provisions to replacement parts and not to restrict it solely to original equipment.

Senator DOUGLAS. In other words, you distrust the President more than you distrust the big four. I think the President is equally as patriotic as the automobile companies.

Mr. MIDDLETON. That isn't exactly a matter of patriotism, it seems to me. If it were felt that it was advantageous to free trade or whatever this bill is supposed to be for, I could see the extension to replacement parts of all kinds not only bearings in the future and so far as I have been able to determine from reading the bill, this can be done after consultation with, I believe, it is the Tariff Commission, but I do not believe that any other Government department's assent is required.

In addition to what you have just said, I will point out that in many cases in the automotive parts business, and certainly in the bearing business, people function ostensibly in capacities other than that in which they really function, and at the moment—

Senator DOUGLAS. It is a mysterious statement.

Mr. MIDDLETON. At the moment, there are a number of people in this country, for example, who are reviving classical cars. If you want a Duesenberg you may buy one for about \$35,000 beginning next year, or if you want an Auburn you can buy one right now, or a Cord. These manufacturers are small manufacturers, they have nothing to do with the three or four large companies in Detroit. They could easily—

Senator DOUGLAS. I see you don't want to stir up a—

Mr. MIDDLETON. Sir, we are one of the suppliers to Detroit and hope to continue to be.

Senator DOUGLAS. Then you might be a footnote to the statement by Mr. Halfpenny.

Mr. MIDDLETON. I hope not.

Senator GORE. If Congress authorizes the President to take action should it not be contemplated that such an action might be taken?

Mr. MIDDLETON. I fail to see why that provision was inserted in the bill and incidentally, contrary to, as I understand it, the agreement which was signed between the two countries, which did not contemplate replacement parts, unless someone believes that it may become advantageous from some standpoint.

Senator DOUGLAS. I want to come to the defense of the President and the State Department. I have been very critical, particularly of the State Department in this matter, as in other matters, but I don't think they would do this on any unilateral basis. They would insist, if this is extended to replacement parts, that it be bilateral and that Canada give an equal pledge.

Mr. MIDDLETON. May I say, Senator, that with a 50-percent-an-hour lower wage rate, with the same equipment, with the same brains, with affiliates of large European manufacturers already in business in Canada, that I think the reciprocal aspects of trade in the bearing business would probably be nonexistent.

Senator DOUGLAS. We have been exporting to Canada.

Mr. MIDDLETON. Very little, if any.

Senator DOUGLAS. It is only of finished vehicles, not in parts that we have been exporting to Canada?

Mr. MIDDLETON. I am confining my remarks to bearings.

Senator DOUGLAS. Ball bearings?

Mr. MIDDLETON. Yes, sir.

Senator DOUGLAS. Does SKF have a Canadian branch?

Mr. MIDDLETON. Yes, sir.

Senator DOUGLAS. How big a branch is it?

Mr. MIDDLETON. I am sorry I can't tell you that.

Senator DOUGLAS. SKF is supposed to be one of the most efficient firms in the world.

Mr. MIDDLETON. It is supposedly the largest ball and roller bearing manufacturer in the world. Kugel Fisher of Germany also has a plant in Canada at the present time. General Motors has a plant there at the present time. I think those are all that are in Canada at the moment.

Senator GORE. Well, though you might not be pleased by it, or your interests served by it, as a matter of principle would not equity require the lowering of tariffs on the importation of automobile parts to, say, a Western Auto Supply store as well as to General Motors?

Mr. MIDDLETON. I would think so.

Senator GORE. Where is there equity or precedent in the lowering of a duty exclusively for the automobile concerns to the disadvantage of the customers or the consumer in the United States who wants to repair his automobile?

Mr. MIDDLETON. Frankly, I can't see the equity, Senator. Perhaps someone else thought there was no equity in it either, which may be the reason for this provision under which similar privileges may be invoked for replacement parts, I don't know. If it were then Western Auto Supply and the other people who are in that sort of business, and if we are correct in our interpretation of what this language says, they then, if the President chose to act, would be put in the same position.

Senator GORE. Well, from the profit and loss sheet of the big three in the automobile business, one would hardly think that they are particularly deserving of a bill for relief, and yet this bill would relieve them from paying duty on automobile parts imported from Canada. But would not relieve the ordinary American citizen or the small supply store owner from paying such a tax.

Mr. MIDDLETON. That would be my interpretation of the bill as it is now written, and without further action.

Senator GORE. Thank you, Mr. Chairman.

Senator RIBICOFF. In other words, you feel that this bill would cause a very large shift of manufacturing of automobiles and various parts to Canada away from the United States.

Mr. MIDDLETON. It would appear to me, Senator Ribicoff, that it would, and although I don't claim to be an expert, as expert as previous witnesses on the legislation as a whole, from all I can understand of it, that is the intent.

Senator RIBICOFF. Well, are you for this agreement or against the agreement as a whole?

Mr. MIDDLETON. I frankly cannot see any reason for singling out a particular industry and a particular country for this kind of a reciprocal arrangement.

Senator RIBICOFF. So while you ask here for an amendment which, by the way, won't carry out what you are trying to do because under section 201(b) the President can then make the determination of what are common duty treatment, so you would have to have a different type of amendment—your preference then is to strike the whole thing out, strike the whole bill.

Mr. MIDDLETON. I had hoped to confine myself to our particular interest. Other people have more adequately dealt with the generalities of the bill, but if I had to take a position on it, and if it were of interest to anyone, I would, yes, oppose the entire thing.

Senator RIBICOFF. Now, the Japanese now are opening up branch plants in other sections of the world, are they not, outside of Japan?

Mr. MIDDLETON. They are forming, primarily, I believe, Senator, sales outlets rather than manufacturing plants so far. The reason being that the cost of production in Japan is so low that they could scarcely find a place outside of Japan where they could make bearings at as low a cost. So, even with duties and with transportation, and transportation, in particular, so far they have not found it necessary from our observations to do so.

However, were they or other countries, as Canada, in a position to avoid some part of the duty into this country, naturally it would only be prudent for them to look into the possibility of locating, let's say assembly operations outside of Japan.

Senator RIBICOFF. On the same quality and type of bearing, what is the differential in production cost between New Britain, Conn., and Canada?

Mr. MIDDLETON. I couldn't really answer that, because we do not have access to their figures. All I can say is this: that our best estimate of their labor rates is that they are somewhere in the neighborhood of one-third to one-fourth less than ours. They have the same American equipment, their plants are new. How efficient they are in their management, I am sure I am in no position to continue. However, their reputation is not that they are particularly inefficient.

Senator RIBICOFF. What percentage of the cost of a bearing is represented by labor?

Mr. MIDDLETON. About a half.

Senator RIBICOFF. About a half. If they have this advantage and if there was a problem of efficiency, and if American concerns opened up Canadian subsidiaries they could remedy the question of production efficiency, could they not?

Mr. MIDDLETON. You mean the American concerns? I am not sure I understand you, sir.

Senator RIBICOFF. In Canada. You talk about they may not be as efficient, but if you had American manufacturers running Canadian subsidiaries, they could bring that efficiency to Canadian manufacture, couldn't they?

Mr. MIDDLETON. Well, frankly, Senator, I don't think the Canadian bearing manufacturers are less efficient as distinguished from what has been said about some other types of products. I don't know anything about a lot of the parts of an automobile, but as far as bearings are concerned, the equipment is universally available. The Canadians have industrious workers, they have good management people, and as some previous witness testified the only thing that they haven't had that we have really is as large a market which also applies to the Japanese as far as that is concerned. If the market, if the size of the market were enlarged, a particular segment of it were enlarged, for example, the automotive bearings, there is absolutely no reason why they should not be as efficient as we and at a lower cost.

Senator RIBICOFF. What percentage of the bearing production of America goes to the automobile industry?

Mr. MIDDLETON. Our estimate is 18 to 20 percent. This includes all types of bearings, you understand. I am not now referring only to ball bearings. I am referring also to roller bearings, which are also represented by our association.

Senator RIBICOFF. Thank you, Mr. Middleton.

Senator LONG. You indicated that the Canadian wage rate was 50 percent below the U.S. wage rate, I believe.

Mr. MIDDLETON. No, sir. I said, if I said that I made an error. I think a previous witness who said 15 percent was approximately correct, and I interpret this to be somewhere in the neighborhood of 50 cents an hour.

Senator LONG. That is what I had in mind. That 50 cents an hour lower wage rate would mean approximately 15 percent wage rate advantage, is that correct?

Mr. MIDDLETON. Yes, sir.

Senator LONG. Yet they are not producing them there at the present time.

Mr. MIDDLETON. They are producing bearings there.

Senator LONG. They are?

Mr. MIDDLETON. Yes; they are. There are three plants in operation in Canada that I know of and perhaps—I believe that is all.

Senator LONG. As I understand it.

Mr. MIDDLETON. I beg your pardon?

Senator LONG. As I understand this agreement, let's say if a bearing produced in Japan were put into an automobile in Canada, and it came in that way, then that would be an automobile part because it is a part of an automobile when you ship in the finished product.

Mr. MIDDLETON. Yes, sir.

Senator LONG. Now, my understanding is if they undertook to take a Japanese bearing and shipped that into this country just as a box of bearings then that would be dutiable as Japanese bearings. Is that how you understand it?

Mr. MIDDLETON. That is correct.

Senator LONG. I just wanted to get that straight.

Mr. MIDDLETON. But you see what the operation would be, I am sorry, I don't have a bearing here to show you, but—

Senator LONG. I think I know what a bearing is.

Mr. MIDDLETON. There are four or five parts to it.

Senator LONG. Here is one.

Mr. MIDDLETON. Yes; that is one of the things I referred to a moment ago as a water pump bearing, that contains an inner ring normally, not a shaft such as you have in your hand, in which a groove is ground, an outer ring in which a groove is ground, several balls and a retainer which keeps the balls in position, and in addition to which there are seals and shields.

Now, you don't have to—you can make the rings alone, the outer and inner rings, ship them from one place to another, perform subsequent operations on them in that subsequent place, you can make balls and send them in there from some other place.

It is susceptible of being made in part in one place and finished in another with the result that it would be not too difficult to comply with the 50 and 60 percent value requirements that are in this bill even though the entire bearing were not made in Canada.

Senator LONG. Let me ask you this—

Senator GORE. Could I ask a question here?

Do I correctly understand you to say that bearings made in Japan, the ball bearing—could I have this just a moment—that a—is this a bearing, that I hold in my hand?

Mr. MIDDLETON. It is a very unusual-looking type of bearing, but it performs the function of lessening friction between a shaft and a housing which is what a bearing is for.

Senator GORE. Are you saying that, are you advising the committee that, under this agreement the ball bearings contained as a part of this bearing could be made in Japan or in any other country, and brought

into Canada, and become a part of the bearing which I hold, and that the total assembly then could be imported in the United States by an American manufacturer duty free if it added—if the content added in Canada, the value of the content added in Canada was as much as 60 percent?

Mr. MIDDLETON. Yes, sir; 60 percent, I believe at the beginning, and 50 percent later on.

Senator RIBICOFF. Will the Senator yield right there?

What would you estimate the value of the ball bearing in relation to the entire item that Senator Gore now holds in his hand?

Mr. MIDDLETON. Well, now, that is a difficult one because, first of all, we don't make that particular thing. That is made in large volume for automotive companies, and we have never been able to compete.

The shaft—and I would be unable to be intelligent at all on the one that you happen to have in your hand.

If it were an ordinary ball bearing, with an outer ring and an inner ring and no shaft, and balls and retainer, the black rings, as we call it, means rings outer machined and heat treated by themselves, would constitute, oh, maybe 15 percent.

Senator RIBICOFF. Generally in an item such as Senator Gore holds in his hand, the ball bearing is a smaller part of the total cost, so therefore, if the balls came in from Japan or Germany or Sweden, and the rest of the parts were made in Canada, and the ball bearings themselves inserted, then it could come in duty free because it constituted—

Mr. MIDDLETON. In a case such as you described, if nothing was imported into Canada except the balls, there would be no question that the requirement of this bill would be met.

Senator LONG. Let me ask you, does Canada have a tariff on balls and bearings?

Mr. MIDDLETON. Yes, sir.

Senator LONG. So now if Japan wanted to do that—and Japan is a low-wage country—they would have to buck that Canadian tariff to get into Canada; then they would have to let the Canadians have 60 percent of the value and the labor that goes with that in order for it to come in as a part. There is quite a bit of transshipping involved there.

Have you done enough study to show that it would be more advantageous for Japan to do that rather than just buck the American tariff directly with the low wage that Japan has all the way?

Mr. MIDDLETON. There might be some question about that. I haven't done an exercise on it. All I know is that at the moment the Japanese seem to be able to come into this country and sell, apparently at a profit at 30 to 35 percent below the American prices, and this after erosion of prices in a very large degree in the last 2 or 3 years.

Senator LONG. That is the point I have in mind.

Mr. MIDDLETON. Whether they need this additional advantage, I am sure I don't know. I don't mean to direct my comments toward the Japanese in particular.

Senator LONG. That is the point at which I am arriving. It would seem to me that a low-labor cost country like Japan would find it completely to their disadvantage—in fact if they can come in here 30

to 35 percent cheaper after they pay a tariff, it seems to me that it would very much raise their costs to have to pay a Canadian tariff and then pay the high cost—relatively high cost—of labor in Canada, to put the other 60 percent of value on it and then transship it on in. By the time you take the cost of handling and the relatively higher cost of Canadian labor, the Japanese would do better to buck the American tariff directly.

Mr. MIDDLETON. I am not sure they don't. What they do, they avoid in effect the 20-percent American tariff on whatever it is that comes in from Canada, which has been added in Canada.

Now, the economics, I am sure, would vary from bearing to bearing and situation to situation, I wouldn't know, and I would like to confine our comments or objections to the possibility of transfer of plants from Europe or Japan or whatnot to Canada. We are saying that this bill makes it possible in Canada alone, might make it possible for us to put a subsidiary up there or to use our plant in England for this purpose. We would prefer to have the jobs here.

Senator LONG. Yes.

Well, of course, you are familiar with the Secretary of Commerce's testimony that we sell those people 10 times as much in the way of automobiles and automobile parts as they sell us.

Mr. MIDDLETON. Not bearings.

Senator LONG. Not bearings?

Mr. MIDDLETON. Not bearings. It is the other way around.

Senator LONG. So in your particular segment, it doesn't work that way?

Mr. MIDDLETON. No, sir.

Senator LONG. Do you argue with the statement on the overall that automobiles and automobile parts that we sell them amount to 10 times as much in dollar volume as they sell us?

Mr. MIDDLETON. I really wouldn't like to answer that because I do not know the answer.

Senator GORE. Is not the important thing here the artificial division of the North American automotive market, and the possible, and possibly intended, effect upon the parts manufacturers?

Mr. MIDDLETON. Yes, sir.

Senator GORE. Thank you.

Senator LONG. Thank you very much.

Mr. MIDDLETON. Thank you.

Senator LONG. Mr. Strackbein?

STATEMENT OF O. R. STRACKBEIN, CHAIRMAN, THE NATIONWIDE COMMITTEE ON EXPORT-IMPORT POLICY

Mr. STRACKBEIN. Mr. Chairman, my name is O. R. Strackbein, chairman of the Nationwide Committee on Import-Export Policy.

I have a very brief statement here which I shall read.

I would like to say that the interest of this committee in this legislation is not direct in the sense that I represent anyone manufacturing automotive parts, but it bearing rather on the nature of the agreement, and how it came about, and what its meaning might be as a precedent. In that sense, we are quite concerned about it.

An international agreement of the importance of the one that would be implemented by H.R. 9042 should have been negotiated as a treaty, or a convention rather than signed, as it were, in a cow pasture by two heads of government, as an executive agreement.

There is great danger that an undesirable precedent will be established if this executive agreement is implemented by simple legislation as proposed here. The area of executive agreements would be widened and the constitutional advice and consent of the Senate to international agreements, requiring two-thirds vote for approval, would be greatly diluted.

It is unfortunate that this agreement which otherwise may have fewer objections than would lie against similar agreements with other countries, for which it would provide a precedent, should take the course mapped out for it from the beginning; namely, the easy way.

In other words, it is much easier to make an executive agreement than to negotiate a treaty or even to go through the procedures of a trade agreement under the trade agreements legislation.

In addition to that, there has been what appears to me to be undue haste. I, personally, except by fortuitous circumstance, received no notice of the hearings. They were evidently called on extremely short notice, contrary to the honored and accepted practice of this committee.

It seems to me that great harm may be done to due process if this bill is passed under these circumstances.

Beyond these objections there is the further one of discrimination in behalf of a particular private group with respect to a remedy against possible injury that might result from operation of the agreement. This legislation would establish a separate form of treatment for the automotive industry, much more favorable than that provided for in the Trade Expansion Act of 1962 which would continue to apply to all other industries.

Thus would be established a pernicious form of favoritism. The Tariff Commission would be bypassed and the President would make the determination of injury and remedy. Thus would the power of Congress to regulate the foreign commerce of the United States be further concentrated in the hands of the executive branch of the Government. The Tariff Commission is an agency of Congress, created by Congress, to help Congress do its work. Shifting of an important aspect of the Tariff Commission's function to the President, as this legislation would do, would weaken the control of the Congress over a responsibility placed specifically in its hands by the Constitution.

Mr. Chairman, as I have indicated, the economic conditions that might justify free trade between the United States and other countries are present in much greater degree between the United States and Canada than between this country and any other countries. Labor costs, while lower in Canada than here, are nevertheless much nearer the levels prevailing in this country than in any other country of the world.

Nevertheless, this fact does not justify the methods used in seeking free trade in automotive products. These products have no special character that places them in a privileged position; nor does the apparently light opposition to the agreement justify using the executive agreement as the means of bringing about free trade. The establish-

ment of precedents should always be considered with a degree of caution that appears to be lacking in this instance.

There would be nothing to stop a similar agreement with any other country if some favored interest should think it desirable. The easy way is certainly not always the best way, and in some instances may be the worst, and I believe in this instance it is.

This, in my judgment, is the case in the present instance.

The procedure might be extended to other products in our trade with Canada, or it might be extended to other countries with respect to automotive products or to other countries with respect to other products.

Mr. Chairman, we would be circumventing almost completely, or at least the way would be open to circumventing almost completely, the machinery which has been established for the negotiation of trade agreements.

If this course were followed, it would open the door to a series of ad hoc executive agreements free from even the mild control that Congress exercises over regularly negotiated trade agreements.

Mr. Chairman, that concludes my statement.

I say it is based entirely on the precedent that we fear would be established if this legislation were adopted implementing this agreement.

Senator Long. Thank you very much, Mr. Strackbein.

I believe this concludes this morning's hearing. They will be adjourned to 10 o'clock Monday morning.

(The following communications were made a part of the record of the hearings at the direction of the Chair:)

RUBBER MANUFACTURERS ASSOCIATION,
New York, N.Y., September 10, 1965.

Subject: H.R. 9042, the Proposed Automotive Products Trade Act of 1965.

Hon. HARRY F. BYRD,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Attached is a statement prepared by the Molded and Extruded Products Division of the Rubber Manufacturers Association concerning H.R. 9042, the proposed Automotive Trade Act of 1965.

In submitting this statement for inclusion in the permanent record of the Senate Finance Committee's hearings on the subject legislation, the Molded and Extruded Products Division sets forth its opposition to H.R. 9042, principally the tariff modification provisions of the measure.

The Molded and Extruded Products Division is composed of 80 American rubber companies engaged in the manufacture of various rubber products used as automobile components. Most of these companies are small businesses without Canadian production facilities. As such, they would suffer serious injury if H.R. 9042 were to be enacted in its present form.

We therefore urge your support of the division's recommendations—namely, an exemption for molded and extruded rubber products from the tariff modification provisions of the bill—that are set forth in the attached statement.

Favorable action by the Finance Committee on these recommendations will allow American independent rubber parts manufacturers to maintain a viable position with their Canadian competitors in the sale of these products.

Sincerely,

GEORGE A. WHITE,
Secretary, Molded and Extruded Products Division.

STATEMENT OF THE MOLDED AND EXTRUDED PRODUCTS DIVISION OF THE RUBBER MANUFACTURERS ASSOCIATION

The Molded and Extruded Products Division of the Rubber Manufacturers Association is composed of 80 American rubber companies, most of which are engaged in the manufacture of various products used as motor vehicle components. Among the motor vehicle parts produced by these manufacturers are motor mounts, bushings, brake cups, window channeling, body mounts, and accelerator and brake pedal pads.

As independent motor vehicle parts producers, the members of this division are greatly concerned over the effect that H.R. 9042, if enacted, would have on their businesses.

The main purpose of H.R. 9042 is to implement the original agreement between the United States and Canada proposing the integration of automotive production facilities in North America.

It has been claimed that both immediate and long-range benefits are to be realized from the enactment of H.R. 9042 by American independent parts manufacturers due to the "projected increase in total vehicle sales in the North American market." Supposedly, this new business would provide increased domestic sales opportunities as well as open up new export markets in Canada for U.S. independent parts manufacturers.

According to the U.S. Department of Commerce, more immediate benefits will be realized to the American parts manufacturers by termination of the Canadian duty remission scheme and by termination of the duty itself which formerly ran as high as 25 percent ad valorem for automotive parts. These actions will supposedly allow American independent parts manufacturers to compete more effectively with "less efficiently produced Canadian parts."

In its report on this measure, the House Ways and Means Committee stated its belief that "over the long run, the absence of duties, the removal of the former rigid Commonwealth content requirement, the rapid growth of the Canadian markets, and the anticipated reduction of prices of cars to the Canadian consumer will lead to increasing sales for U.S. parts manufacturers."

This industry loudly applauds the attainment of these expanded sales opportunities as are viewed by proponents of H.R. 9042 and would lend its strong support to any means of attaining them.

We fear, however, notwithstanding the assurance of the Department of Commerce that "the independent parts industry will not be adversely affected," that American molded and extruded rubber parts manufacturers will indeed suffer injury if H.R. 9042 is enacted in its present form.

The basis for this fear is simple and well founded. Contrary to what may be true concerning Canadian manufacturers of other types of automotive parts, the Canadian manufacturer of molded and extruded rubber products is not inefficient and he is not unable to compete with his American counterpart.

Quite the opposite is true. American molded and extruded parts manufacturers having no Canadian production facilities are admittedly unable to compete with Canadian manufacturers in sales of these products in Canada. Moreover, removal of the 8½-percent American duty on imported auto parts will ease the establishment of new markets in the United States for products of Canadian manufacture, which can only work to the serious disadvantage of the independent American rubber parts manufacturer. We believe this danger to the American rubber industry was in part recognized when tires and tubes were exempted in the original agreement.

In addition, we believe that the great disparity in labor costs favoring the Canadian manufacturer is such that even removal of the 25-percent Canadian duty on imported auto parts would not grant American manufacturers a viable position regarding sales of their products in Canada.

The increase in sales potential that enactment of H.R. 9042 would provide for molded and extruded rubber parts of Canadian manufacture would result in substantial production increases to meet this demand. The increased production, moreover, would provide greater economies of scale to Canadian manufacturers, thus enhancing their ability to compete in the overall North American market.

Another obvious factor contributing to their economic well-being is that American auto manufacturers and their Canadian subsidiaries—in order to honor their commitment to the Canadian Government concerning "Canadian value added" in the production of vehicles and parts—will seek expanded Canadian sources of vehicular parts, perhaps even suffering a slight price differential in doing so.

It is already becoming apparent that purchases of vehicular parts are being diverted to Canadian manufacturers at the expense of their American counterparts. It is quite likely that this trend will increase.

The great majority of members of this division are small businesses not having the necessary capital to invest in a production facility in Canada. Granted that if they were able to do so the probability of injury from H.R. 9042 would be lessened, the simple fact is that their size does not permit such an expansion of facilities.

SUMMARY OF OBJECTIONS

From the above, it can be readily seen that H.R. 9042, rather than enhance the sale of American-made molded and extruded rubber products, would serve the opposite end and would—

1. Reduce the domestic sales potential of molded and extruded rubber parts to be installed in American-built motor vehicles because of the increased availability of low-priced imports from Canada occasioned by their lower labor cost;
2. Dampen the opportunity for growth by American molded and extruded rubber parts manufacturers, the net result of which would be the exportation of jobs to Canada; and
3. Diminish export opportunities to independent American manufacturers.

Possibly indicative of the effect of this bill on the overall molded and extruded rubber parts industry is an estimate of one of our member companies whose present volume of sales is approximately \$22 million per year. Based upon the stated intent of one auto manufacturer to divert his company's purchase of automotive parts to Canada, this particular rubber company will be denied more than \$2 million in increased sales potential in just the first year after enactment of H.R. 9042. As soon as the full effect of the bill would be realized, such a loss would undoubtedly be even greater.

RECOMMENDATIONS

Having related to the Finance Committee the probable effects of H.R. 9042 upon this industry, we now request that certain action be taken.

In full respect of the extent of injury that H.R. 9042 poses to American producers of molded and extruded rubber products, we ask that the Finance Committee amend this measure by providing a specific exemption from its tariff modification provisions to products of this class, similar to the exemption already granted to tires and tubes. Specifically we seek such an exemption for the following product lines:

TSUS No.:	<i>Items covered</i>
772.65-----	Hose and tubing.
772.80-----	Handles and knobs of rubber or plastic.
772.85-----	Caps, lids, seals, stoppers, and other closures of rubber or plastic.
778.25-----	Gaskets of rubber or plastic.
778.30-----	Electric insulators.

It is our understanding that many products of this industry, such as those described in the first paragraph of this statement, would be covered by other TSUS item numbers which are rather general in nature. These include the following:

TSUS No.:	<i>Items covered</i>
	Articles not specifically provided for—
774.25-----	Of natural rubber.
774.60-----	Other synthetic rubber or plastic.
692.20-----	Motor vehicle parts.

In view of the fact that the above three categories are so comprehensive in nature, we ask that a specific verbal instruction be included in H.R. 9042 prescribing that for the purpose of tariff modification provided for in the bill, "molded and extruded rubber parts for automotive purposes" are to be specifically exempted from tariff modification as it affects any of the above three classes of products.

If in the judgment of the Finance Committee such an exemption cannot be granted, we then request the formal commitments be obtained from American motor vehicle manufacturers stating that—in future production runs—there

will be no reduction below the present ratio of the value of domestically produced rubber parts used in American-made vehicles.

In other words, recognizing that the Canadian Government was given certain guarantees by the auto manufacturers, we believe that American parts producers should in all equity also be afforded assurances that their domestic markets will not be unduly disturbed.

Another matter which we pose for consideration of the Finance Committee is the fact that H.R. 9042 proposes a broadening of the tariff-modification authority of the President, allowing him to—subject to congressional veto—eliminate duties on replacement parts as well as on original equipment parts and allowing him to eliminate both classes of duties applicable to trade between the United States and other countries with which it is engaged in trade.

If this broadened authority were to be granted, it could further deteriorate the American independent parts manufacturers' growth potential through the introduction of parts into America by countries with even lower labor and manufacturing costs than Canada.

Bearing in mind that the full economic impact of this proposed agreement between the United States and Canada is yet to be realized, and with the attendant dangers to certain domestic industries that apparently lie within it even in its present form, it is in our judgment extremely hazardous and premature to grant this additional authority. Thus, we feel and strongly urge the Finance Committee that these provisions should be deleted from the bill.

This division expresses the gratitude of its members to the Finance Committee for its recognition of the problem we have related within this statement and for whatever action the committee may seek to undertake to provide the necessary relief to these manufacturers.

(See also supplemental statement p. 369.)

CASTLE RUBBER CO.,
East Butler, Pa., August 31, 1965.

Subject: Bill H.R. 9042.

HON. HARRY FLOOD BYRD,
U.S. Senate, Washington, D.O.

MY DEAR SENATOR BYRD: Since we are a small operating company with approximately 400 people and have found it necessary to be involved with all of the current problems of business, including a rubber workers' union shop, we feel it imperative to raise objection to the existing conditions permitting import of rubber products which we currently make for the automotive industry.

Certainly one cannot live in the world today and be at all openminded without realizing that all peoples of all lands seek something better. We, naturally, are privileged to live in this country, even though at times conditions arise which make it seem that other ways out might be much better than the immediate solution which is adopted.

We are aware that the labor rate of our Canadian neighbors represents a substantial savings over the rates which we are forced to pay if we are to operate our business. In addition, they, no doubt, have other material benefits from their so-called mother country in the imports of natural rubber from their various possession affiliates. Likewise, we note there is an exemption covering the production of tires and tubes which, it seems, is quite apropos.

We can't quite understand why our Government has seen fit to favor the few; and again, small companies such as ours in the industrial rubber production division, should suffer lack of protection and, in all probability, lose much of our current automotive parts business to our good neighbors on the north.

Further, it would seem to us that the companies who are presently better able to pay these prices (the auto manufacturer), or the differential in parts produced for local consumption, will be able to circumvent and not be required to buy locally due to the price differential.

Unless there are other concessions which should benefit small industrial rubber parts producers such as ourselves, of which we are not aware, unquestionably, allowing the above act to stand in its present form will work a great hardship on many of us.

Would like to offer also for your consideration, the fact that we are already forced to sell at really low prices due to competition and the many available sources—with whom we must compete within the entire U.S. manufacturing orbit. The rubber molded business has been priced much to close for years. Putting into practice the act referred to above certainly will make it worse and

not only influence our pricing but, most surely, will result in less work for our own people.

Therefore, we urge you to take an active part on your committee and investigate to the fullest extent the seriousness of the problem involving several hundred small companies such as ourselves, before final approval is voted upon.

Your attention to the above is requested and will be greatly appreciated.

Very truly yours,

LEWIS E. STRAITH, *President.*

THE H. O. CANFIELD CO., INC.,
Olifson Forge, Va., August 27, 1965.

HON. HARRY F. BYRD,
Senate Office Building,
Washington, D.C.

DEAR SENATOR BYRD: It is my understanding, in the near future the Senate Finance Committee, of which you are chairman, will give consideration to the Automotive Products Trade Act of 1965, which was introduced in the House of Representatives on June 15, 1965, as H.R. 9042 by Representative Wilbur Mills.

We as a Virginia manufacturer of component rubber parts for the automotive manufacturers are very much opposed to this bill and fully subscribe to the statement which has been made by the Molded and Extruded Products Division of Rubber Manufacturers Association, Inc.

I am certain you will be interested to know that our plant, which was established in Iron Gate, Va., in 1954, and was expanded to its present size in 1957, employs in excess of 450 people, has an annual payroll of over \$2 million. As you can appreciate, a plant of this size makes a most important contribution to the economy of this section of southwest Virginia.

The seriousness of the passage of this bill to our company is reflected in the fact that approximately 60 percent of our total production is channeled into the automotive companies. Any sizable reduction in this 60 percent of our production would, without question, necessitate a sizable decrease in our labor force and its accompanying payroll.

It is, indeed, conceivable that a sales volume loss of this nature could necessitate the closing of our plant and its contribution to this community's economic welfare. This situation could also apply to many other small companies in our segment of the rubber industry.

The unfairness of the bill in its present form and the recognition of its hardships on the producers of rubber parts is indicated by the fact that the bill exempts from the act, the manufacturers of tires and tubes, but does not afford relief for our segment of the industry, which is made up of numerous small companies who, without question, would experience greater hardships than the manufacturers of exempted items, tires, and tubes.

We ask the question, Why are the manufacturers of tires and tubes exempted and not the manufacturers of the many other rubber component parts which go into the manufacture of cars? Is it because of the manufacturers of tires and tubes for the most part being billion-dollar corporations who have the financial resources to maintain lobbies in Washington to influence decisions which favor them without regard to a need for assistance for the numerous small companies whose lifeblood depends upon the sale of rubber components to the automotive trade?

I shall appreciate your careful consideration of the serious effect which this bill may have on companies such as ours and, accordingly, insist that since this bill already exempts the single largest manufacturers of rubber products; namely, tires and tubes, that it should be changed to exempt all automotive rubber products.

I send warmest greetings from all of your many friends in southwest Virginia.

Kindest regards.

Very truly yours,

K. N. CARTER,
Vice President, Sales.

THE FAFNIE BEARING CO.,
New Britain, Conn., August 18, 1965.

Re H.R. 6960, Canadian trade pact.

Hon. THOMAS J. DODD,
Old Senate Office Building,
Washington, D.C.

DEAR SENATOR DODD: Section 405(d) of H.R. 6960 should be amended, we urge, to delete balls, rollers, and ball and roller bearings (T.S.U.S. item 680.31 and item 680.36). I urge your support for this deletion because the duty-free import from Canada of these bearings and components of these bearings would have a seriously adverse effect on the domestic antifriction bearing industry.

Automotive original equipment requirements account for about one-fifth of the U.S. consumption of ball and roller bearings. Replacement parts also are a significant portion of the U.S. consumption. However, ball and roller bearings used for automotive purposes are multipurpose items. The same bearing may be used in an automobile or in numerous other equipment and machinery applications. The Internal Revenue Service has recognized the lack of unique automotive characteristics of these bearings in excise tax ruling T1R-691. If the Internal Revenue Service considers the bearings used in automobiles not taxable as parts of an automobile, these same bearings should not be considered as parts of automobiles for the purposes of the Canadian Trade Agreement.

Canadian bearings manufacturers have the machinery and know-how to produce competitively with U.S. manufacturers. Moreover, the labor rates in Canada are lower than in the United States. Permitting duty-free importation obviously would place domestic manufacturers at a real competitive disadvantage.

Therefore, I earnestly request your support for this suggested amendment.

Very truly yours,

W. E. DeCAULP,
Secretary and General Counsel.

WILLOUGHBY, OHIO, September 17, 1965.

Hon. HARRY FLOOD BYRD,
Chairman, Senate Finance Committee,
Washington, D.C.:

We feel the overall provisions of H.R. 9042 could work to our serious disadvantage. The relatively low value of our products as compared to larger components would make it possible for savings on larger pieces to overshadow penalties on ours. We recommend that molded and extruded rubber parts be exempted.

THE OHIO RUBBER CO.,
P. D. McMANUS,
President.

DETROIT, MICH., September 17, 1965.

Senator HARRY F. BYRD,
Chairman, Senate Finance Committee,
U.S. Senate,
Washington, D.C.:

Strongly urge your support in securing passage of H.R. 9042, Automotive Products Trade Act of 1965, now before Senate Finance Committee. We believe approval of this bill is in the best interests of the Nation. We feel sure that it will not reduce U.S. manpower requirements in the expanding automotive industry. Unless H.R. 9042 is passed, we believe it inevitable that a tariff escalation battle will occur between the United States and Canada, with resulting chaos for the automotive industry.

R. J. KALBFLEISCH,
Vice President and General Manager, the Budd Co.,
Automotive Division.

DETROIT, MICH., September 17, 1965.

Senator HARRY F. BYRD,
Chairman, Senate Finance Committee,
Senate Office Building,
Washington, D.C.:

Wolverine Die Cast Corp., an auto parts manufacturer in Detroit, Mich., strongly supports and urges adoption of Automotive Products Trade Act of 1965. We support all efforts to adopt this legislation at this session.

WOLVERINE DIE CAST CORP.

(Whereupon, at 12:25 p.m., the committee recessed, to reconvene at 10 a.m., September 20, 1965.)

UNITED STATES-CANADIAN AUTOMOBILE AGREEMENT

MONDAY, SEPTEMBER 20, 1965

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to recess, at 10:20 a.m., in room 2221, New Senate Office Building, Senator Russell B. Long, presiding.

Present: Senators Long, Gore, Hartke, Williams, and Carlson.

Also present: Elizabeth B. Springer, chief clerk; and Thomas Vail, professional staff member.

Senator LONG. We will call this hearing to order.

Mr. Secretary, you were requested to come back because some Senators wanted to ask some questions of you.

Senator Hartke, in particular, wanted to ask some questions of you. He is not here, I regret to say.

But maybe some of the other Senators would like to ask you some questions in line with your testimony.

I would ask, Senator Williams?

Senator WILLIAMS. I have no questions.

Senator CARLSON. I have no questions.

Senator LONG. Senator Gore?

STATEMENT OF HON. WILLARD WIRTZ, SECRETARY OF LABOR; ACCOMPANIED BY STANLEY RUTTENBERG, MANPOWER ADMIN- ISTRATOR; AND EDGAR EATON, ASSISTANT MANPOWER ADMIN- ISTRATOR

Senator GORE. Mr. Secretary. I would like to ask you some questions regarding section 3 of the bill. On page 8, subsection (d) reads as follows—I am referring to the bill. Do you have it before you?

Secretary WIRTZ. Yes, I have it.

Senator GORE (reading):

If the President makes an affirmative determination under paragraph 1, but a negative determination under paragraph 2 or 3 of subsection (b) with respect to a firm or group of workers, the President shall determine whether the operation of the agreement has nevertheless been the primary factor in causing or threatening to cause dislocation of a firm or group of workers. If the President makes such an affirmative determination, he shall promptly certify that as a result of this dislocation the firm or group of workers is eligible to apply for adjustment assistance.

Now, as I understand that, if the President determines even that there is a threat that some firm or group of workers will be dislocated he can call into play the benefits, and into effect the benefits, contained in this title; is that correct?

Secretary WIRTZ. He could in connection with the particular case, do that. I assume your question contemplates a particular factual situation.

Senator GORE. Well, it can be in particular, or in a group of particular, instances.

Secretary WIRTZ. I would assume he would anticipate the issuance of regulations which would identify with detail the kind of situation but would also assume there would have to be in the administration of the act a specific occasion on which he would act.

Senator GORE. Now—

Secretary WIRTZ. Case or group of cases.

Senator GORE. If I correctly understand the bill, there is a strange situation here. On line 25, I would like to call the attention of the Senators from Delaware and Kansas that on line 25 the term is used "operation of the agreement." Now, when we look to a definition of the agreement, if you will turn with me, Mr. Secretary, page 3, line 4, a definition of the agreement, a definition of this term "operation of the agreement is concerned" is given, and I would like to read that definition:

The term "operation of the agreement" includes governmental or private actions in the United States or Canada directly related to the conclusion or implementation of the agreement.

If I correctly understand that, this bill would give to the President complete discretionary power to vest the vast benefits either upon business firms or groups of workers in consequence of a private agreement between an automobile concern in the United States or some subsidiary in Canada and the Government of Canada. Is that a correct understanding?

Secretary WIRTZ. No. If the burden of the question involves your emphasis on vast discretionary authority, my answer would be negative.

Senator GORE. Well, leave out "vast."

Secretary WIRTZ. Discretionary authority?

Discretionary authority, as I would understand it, Senator, within the application of the rules that I guess both you and I used to identify in the Latin phrase of "Ejusdem generis noscitur a sociis," or something of the sort.

Senator LONG. I took Latin, but would you mind telling me what that means? [Laughter.]

Secretary WIRTZ. I think it is another reflection of lawyers. Professional lawyers resort to the Latin phrase when they are not quite sure what it means. I understand the principle—

Senator GORE. I am glad to have this, let me interrupt to say, because this is really going to help pass the bill.

Secretary WIRTZ. I understand the point to be that the application of any rule is to be in terms of its context in the statute or in the practice and that, therefore, the application of this law to a particular case by the President or through the delegated authority which he might confer would be bound by the context and would take its meaning from the more specific provisions, and that, therefore, the discretion would be limited by the limitations that it makes from context.

Senator GORE. All right. Let's just look at the context.

Thank you for that statement.

What must the President find? He must determine whether the operation of the agreement, and I digress now to call attention to the definition of "agreement," of this term "operation of agreement" refers either to governmental action or to private action. And let me reread:

The President shall determine whether the operation of the agreement has nevertheless been the primary factor in causing or threatening to cause dislocation of the firm or group of workers.

Now, my question—If one of the Big Four enters into an agreement, or if this bill is approved, proceeds to dispute the agreements already entered into with Canada, and these agreements threaten either to dislocate, or if the President determines them to be the prime factor in threatening to dislocate, firms or workers could the President then extend without further action by Congress other than appropriations the benefits contained in this bill to such firms or such groups of workers as the President may determine the private agreements between the automobile companies and Canada, already made, threaten dislocation?

Secretary WIRTZ. I am not sure I follow the question. There would be first the necessity under—

Senator GORE. I don't ask you to answer a question which you don't thoroughly understand. Let me restate it.

Secretary WIRTZ. All right.

Senator GORE. Before asking the question, let me again call to your attention the authority provided beginning in subsection (d), page 8, and then the definition of the term "operation of the agreement" on page 14.

Now, my question: If the President determines that the operation of the agreement, operation of the agreement which by definition includes the private agreements entered into by the Big Four and Canada, is the primary factor "in causing or threatening to cause dislocation of the firm or group of workers" would the President then be authorized without further action by the Congress, except appropriations, to extend aid to such groups of firms or workers as are dislocated or as may be threatened with dislocation as a result of the private agreements of the Big Four in Canada?

Secretary WIRTZ. His action in that situation would depend, first, upon the filing of a petition by a firm or group of workers, as identified in section 302(b). It would depend then upon the submission of that situation to the Tariff Commission for the finding of facts. It would depend then upon the President's following the procedures outlined in subsection (f) (1) on page 10 which requires him before he makes each final determination to seek the advice of the Departments of Labor or Commerce, Treasury, Small Business Administration, and such other agencies as he deems appropriate. Having followed those procedures there would be authority for him to act in the manner to which you have referred, making it clear there must first be a finding of dislocation in the particular case.

Senator GORE. Then, with the qualifications that are contained, to which you refer, in subsection (f) page 8, which is merely that the President shall have sought the advice of the Departments of Commerce, Labor, Treasury, and Small Business, and such other agencies as he may deem appropriate—and now which other section do you say qualifies it?

Secretary WIRTZ. I refer to the various sections, Senator, which includes first a requirement in the statute that there be a filing of a complaint or a petition. And then the finding of a dislocation, on the basis of a factual determination by the Tariff Commission, and the receipt of advice from those various departments.

Senator GORE. Now, in addition to causing dislocation you failed to include the threat to cause.

Secretary WIRTZ. All right.

Senator GORE. All right.

Now, where is the part which the Tariff Commission must play?

Secretary WIRTZ. On page 9 in subparagraph (e) (1), and (e) (2).

Senator GORE. Well, the President's decision, though, is not limited by the finding of the Tariff Commission, as I see it.

Secretary WIRTZ. It is not limited. I thought the line of your inquiry was as to whether there is a wide discretion or a vast and broad discretion. And my answers were directed toward pointing out the safeguards here provided. It is true here that he is not bound by the finding of the Tariff Commission.

Senator GORE. Well, now, that makes a different proposition of it. You are now in a position of stating it just about as I stated it.

Just what first—first, they must ask for it.

Secretary WIRTZ. Right.

Senator GORE. Whether it is a business firm or a group of workers or groups of firms or groups of workers.

Secretary WIRTZ. That is right.

Senator GORE. They must apply for it.

Upon application, then, the President must seek the advice of Labor, Commerce, and such other agencies as he may deem proper, including the Tariff Commission; is that correct?

Secretary WIRTZ. In general. It is a different kind of function. There is a factfinding determination as far as the Tariff Commission is concerned. There is an advisory function as far as these other agencies are concerned.

Senator GORE. What is the factfinding—point that out to me—of the Tariff Commission?

Secretary WIRTZ. I am sorry, I missed the question.

Senator GORE. I beg your pardon.

Secretary WIRTZ. I missed your question.

What is the function of the Tariff Commission?

Senator GORE. Where is the factfinding requirement?

Secretary WIRTZ. In subsection (e) (1), (2), and (3) on pages 9 and 10. It is section 302 (e) (1), and (e) (2), and (e) (3).

Senator GORE. I don't see any requirement that they must find any particular fact as a prerequisite or as a requirement for the Presidential authority to invoke the benefits contained therein. If you can point that out to me, I would appreciate it.

Secretary WIRTZ. You mean is there a requirement that there be a finding of fact by the Tariff Commission?

I would so interpret the statute as so providing.

Senator GORE. Will you read that part—what particular fact? The President can disagree with the finding, can't he?

Secretary WIRTZ. That is another matter, and the answer is "Yes."

Senator GORE. Then the finding of—an affirmative finding of either a dislocation or a threat of dislocation is not necessary for the President to extend the benefits.

Secretary WIRTZ. Yes, it is necessary. There must be a finding by the President of a dislocation.

Senator GORE. By the Tariff Commission. That is my question.

Secretary WIRTZ. I have lost your question.

The President must find the dislocation. He must do it on the basis of a factual investigation, including a public hearing if requested, by the Tariff Commission, and he does it upon the advice of these other departments.

Senator GORE. I understand the President must make the finding, but will you restate your view as to what is necessary on the part of the Tariff Commission before the President has the power?

Secretary WIRTZ. My view would be that reflected specifically in section 302(e) (1), (2), and (3).

Senator GORE. What is your understanding of it exactly?

Secretary WIRTZ. It is exactly as the bill is written.

Senator GORE. Well, the bill is not written very exactly.

Secretary WIRTZ. I respect that opinion.

Senator GORE. Thank you.

I would respect your assistance if you would show me just where an affirmative finding of the Tariff Commission is necessary for the President himself to make an affirmative finding.

Secretary WIRTZ. The finding is necessary, Senator Gore—

Senator GORE. I said the affirmative finding.

Secretary WIRTZ. No; an affirmative finding would not be necessary.

Senator GORE. Thank you.

Now we are—I think you and I are in agreement, that upon this request by any firm or group of firms or any group of workers or any number of groups of workers, the President then refers to the Tariff Commission for a study and a report and seeks the advice of Labor, Commerce, Treasury, and such other agencies as he may desire, but then regardless of what the advice of any agency is, including the Tariff Commission, the President can then make the determination that the private agreement between the Big 4 and Canada threatens to cause dislocation and then, without any further action of Congress, the benefits contained herein can be given to either a firm or a group of firms or a group of workers or groups of workers.

Is the answer to that "Yes"?

Secretary WIRTZ. Not in your words, Senator Gore. I think I have illuminated this as fully as I can, the position and the very strong conviction that under the statute or the bill as proposed there is a most orderly procedure, a carefully drawn procedure, in fact a conservative procedure, for the fullest possible reasonable advice to the President of the United States in making that determination.

I think the bill adequately protects every interest which is involved, and does not result in the conferring of what would, by the implication of your question, be undue discretionary authority.

Senator GORE. Well, of course, I shall not press you for a brief answer.

Secretary WIRTZ. I could make a brief answer. My answer in the terms of your question would be that the implication of the question would require a negative answer. That that is not a proper interpretation of the statute or the bill.

Senator GORE. But you are unable to show me any provision of the bill that requires any affirmative finding by the Tariff Commission in order for the President to make this determination.

Secretary WIRTZ. There is not a requirement of an affirmative finding.

Senator GORE. Thank you. I agree with you that there is not on the part of the Tariff Commission or any other agency of the Government. Merely if the President determines that these private agreements are causing dislocation or even threatening to cause dislocation then the vast benefits contained in this bill can be given to either firms or groups of firms or workers or groups of workers.

Senator HARTKE requested that you return for interrogation today, and I was merely trying to clarify this point before his arrival, and now that he is here I yield to him.

Senator HARTKE. Let me ask you about the results from the Export Expansion Act under the so-called Adjustments Assistance Section. In your opinion, has this worked as it was anticipated that it would work?

Secretary WIRTZ. No, sir, it has not.

Senator HARTKE. There has been some dissatisfaction which basically can probably be placed on the legal interpretation of what Congress did rather than on the intent; in other words, there is a difference of opinion among the Tariff Commissioners as to what was said even in relation as to what was intended.

Secretary WIRTZ. I am not sure how much difference there is within the Tariff Commission, and I suppose it would be presumptuous to assess the reasons, for what I have conceded to be my disappointment, one way or the other.

Senator HARTKE. But it was anticipated when the act was passed that the Tariff Commission would not place the strict interpretation upon this section of the Export Expansion Act which has been applied; is that not true?

Secretary WIRTZ. That was certainly reflected in my own testimony in support of the sections of the bill. I did expect they would be applied in cases to which they have not been applied.

Senator HARTKE. As the result of some conversations which you and I have had, we both agree, I think, that some modification of that provision probably would be in order. Certainly, at least, if not acted upon, it should be studied to see whether or not some changes should be made. Is that fair?

Secretary WIRTZ. It would be true personally and beyond that the administration has communicated to the committee its recognition of the desirability of taking a further look at those provisions in the Trade Expansion Act.

Senator HARTKE. Would you briefly tell the committee for the record what is the difference in the Trade Expansion Act and the provisions in the adjustments assistance section in this bill?

Secretary WIRTZ. Yes. Very briefly, the difference involves the very point to which Senator Gore has referred. Whereas under the Trade Expansion Act the procedure places a virtually ultimate decisionmaking authority in the Tariff Commission, there is here provision for discharge of that function by the President or through such authority or through such officers as he may designate, with the Tariff

Commission having a factfinding determination but not a final authority decisionmaking power.

There would also be some changes, some significant changes, as far as the findings which it is required to make are concerned so that here there is a fairly carefully drawn definition of the dislocation situation which was not true in the Trade Expansion Act.

So there would be—in answer to your question, Senator HARTKE, both a different procedure and the more specific provisions.

Senator HARTKE. Do you think it is possible to amend the Trade Expansion Act so that it would apply equally both to this agreement and to the general overall problem, which arises as a result of limiting barriers to the expansion of free trade generally?

Secretary WIRTZ. I would think it was surely possible. I stated this as strongly as I could, urging upon the committee that the better course would be to view separately the problem of the amendment of the Trade Expansion Act to assure that, as far as the operation of this act is concerned, those problems are taken care of which arise from the experience under the act, and then to look quite carefully at the question of what adjustment should be made in the provisions of the Trade Expansion Act as such.

In other words, I would recommend respectfully that the two be separated out but I do not want to suggest in my answer any procrastination or delay as far as the Trade Expansion Act is concerned.

Senator HARTKE. In other words, it is your opinion that the better procedure would be to go ahead now upon this bill and act upon it with whatever provisions we want in it, whether as drafted or with modifications, and then to take the Trade Expansion Act and deal with the suggested changes in it separately at a later time. Is that correct?

Secretary WIRTZ. That would be right.

I want to refresh my recollection, but I think that the bill which has been introduced, which you have introduced, does provide for separate treatment, am I correct?

Senator HARTKE. That is correct.

Secretary WIRTZ. Yes, and I would have recommended that course, expressed in S. 1833.

Senator HARTKE. It has also been drafted now as a possible amendment to this bill.

Secretary WIRTZ. Yes, sir.

Senator HARTKE. Is the adjustment assistance section of this bill more liberal in your opinion, or less liberal in its application, or can you say?

Secretary WIRTZ. If by "liberal" you mean that there is a likelihood in the fact, I think a certainty, that it will be applied to situations to which the Trade Expansion Act have not been applied, my answer would be squarely affirmative—strongly affirmative.

Senator HARTKE. In other words, it is more liberal in the requirement of injury to the workmen or to the company probably. But I am speaking more specifically of the employees now; that is the part I am concerned about. It is your interpretation of the bill before us that the requirement of findings with which the President is concerned would not be the same degree of injury necessary as at present in the Trade Expansion Act under the Tariff Commission.

Secretary WIRTZ. That is right. The protection is much broader and is here more fully developed and set out as can be.

Senator HARTKE. The one problem that concerns me most at this moment concerns delay. I have indicated to you that I would be at least sympathetic to considering delaying this measure, and I want to make more or less of a caveat at this time. I am fearful that separate consideration of modification of the Trade Adjustment Act may not be as simple later as it is at this time when we have another vehicle with which we can ride, which the administration is strongly in favor of.

Secretary WIRTZ. I am in a position to say, Senator Hartke and Mr. Chairman and members of the committee, that the administration will support without qualification and will attempt to bring to the point of activation at the earliest possible point, a proposal of the kind illustrated by S. 1838.

Senator HARTKE. All right, thank you, Mr. Secretary.

Returning to the bill itself, you have had a chance to check this agreement rather extensively and I know you have stated you are 100 percent in sympathy with it. I have here a copy of the Financial Post, which I think probably is the Canadian equivalent—if anybody from Barron's is here—I think it is equivalent to our Barron's.

On date of September 18, 1965, they speak—and I quote—of “the bonanza that will begin as soon as the U.S. Senate okays the pact.”

Do you think this will be a bonanza for Canada?

Secretary WIRTZ. I would rather express my view in terms of the results of it as far as the United States is concerned and in terms of my own concerns, Senator Hartke. I think we have got between 25,000 and 50,000 jobs riding on the completion of these arrangements, meaning the approval of the legislation involved here, and so my answer would be that there is a great, great, public interest involved in the approval of this legislation.

I do not mean to avoid your question. I think it will work to the very definite advantage of the automobile, the automotive parts industry in Canada, and I do not draw back from the bonanza phrase, except for the overtones it might have. I think it is a very good thing for the Canadian automobile industry. I think it is a good thing for the automobile industries.

Senator HARTKE. Now, they go on further to say:

The growth may mean at least 5 million square feet of new plant space. The projects cover a wide range of materials, various types of steels, in fact fibers, plastics, rubber, chemicals, paints, and hundreds of auto parts ranging from screws to 250-pound metal auto frames. The extra capacity will be needed to enable the automobile manufacturers to boost the Canadian value-added content of their vehicles in line with the commitments already given at Ottawa.

Now this implies that there is going to be an additional amount of protected Canadian materials or work going into these vehicles, is that not true?

Secretary WIRTZ. I would not understand it to a point of supporting the latter statement. I think that the bonanza, to adopt that phrase, results from the invigoration of this whole industry, and the expectation that there will be a much larger automobile industry on this continent in both parts. So I would identify the desirable results not on the narrower basis that is implied in the question but the broad basis of the invigoration of a whole industry.

Senator HARTKE. They go on further to say:

Canadian steelmakers see a potential additional market of 400,000 to 500,000 tons a year opening up as a result of an expanded auto program. The extra steels will go into dozens of appliances including the two biggest—auto frames and heavy body stamping.

Then they go ahead further to deal with the results during the last 6 months. They show that exports of Canadian-built passenger automobiles and chassis were up 103 percent in the first 6 months; exports of motor vehicle parts and accessories were up 107 percent in the first 6 months; exports of motor vehicle engines and parts were up 107 percent; and in June 1965 the number of jobs in the Canadian auto industry was up. Basic auto manufacturing was up 7,000 from the same time last year, and the number of jobs in auto parts manufacturing was up 4,000.

The thing I am getting at is simply this—where is this expanded export going, generally speaking? Is it not coming to the United States?

Secretary WIRTZ. The expanded export would come largely to the United States.

Senator HARTKE. To the United States, is that not true?

Secretary WIRTZ. That is correct.

Senator HARTKE. Now, has there been to your knowledge an expansion in purchases of automobiles by the Canadian people themselves?

Secretary WIRTZ. I would have to check. I do not know. Do you mean this year?

Senator HARTKE. Yes.

Secretary WIRTZ. I just frankly do not know.

Senator HARTKE. I think you will find though that the increase in purchases is rather small percentagewise as compared to the increase in their exports.

Secretary WIRTZ. I am advised that for this year the figure of 6 to 8 percent would probably be a fair figure.

Senator HARTKE. Yes. The point I am coming back to is this: Wouldn't these 7,000 added jobs in auto manufacturing and 4,000 in parts manufacturing really have been jobs which American people would have had except for the special concessions that were entered into?

Secretary WIRTZ. No, I think that is basic to the understanding of the whole of what we are talking about here. Because, Senator Hartke, I am quite convinced that if it were not for the making of these agreements and the full legislative pattern here, we would have today a tariff wall so high in this particular industry between these two countries that it would have meant a very serious diminution of the industry on both sides. And that is the reason I recommend this.

Senator HARTKE. Let's put the record straight. It was unilateral action instituted by Canada which caused this difficulty, is that right?

Secretary WIRTZ. I understand the point and don't know the history thoroughly enough. I don't mean to take exception to that. There is no question in my mind from the history as I heard it developed in the testimony particularly last week that there was action instituted at an early stage by Canada.

Senator HARTKE. There isn't any question so far as the relative barriers are concerned. The barriers are higher on the Canadian side than on ours and have been for some time.

Secretary WIRTZ. That is right.

Senator HARTKE. And as for the action taken by the Canadians, they went into the so-called remission scheme without consulting, at least, with our Government. That is true isn't it?

Secretary WIRTZ. I just wouldn't know that, but I raise no question about that.

Senator HARTKE. All right. I think this is important, Mr. Secretary, if you are going to be concerned with these jobs as part of your labor responsibilities. Here was an action which was important at least as far as my own State was concerned, which is a heavy manufacturing State and especially heavily in the field of automobiles and automobile parts. I might say that it was my pleasure just this last Saturday to visit in Marion, Ind., where we have close to 6,000 employees in the Fisher Body plant there stamping out some of the same material which is referred to here in the Financial Post. Just this last Saturday I visited with them, and I am concerned about what is going to happen to them, just as I was concerned when 10,000 people put their signatures to the Borg-Warner petition complaining about this remissions scheme, which, in effect, caused a slowdown in their employment, and just as I was concerned, as I know you were concerned, about not only the effect upon our industry but also about the human effect which was occasioned when Studebaker closed down its operations in South Bend, Ind., and moved them to Hamilton, Ontario, where they are doing quite a flourishing business.

So I think it is important for us to recognize that whatever precipitous action was taken in this case, and whatever difficulties have arisen in Canadian-American relationships politically, was occasioned by the Canadians and was unilaterally taken by them and not taken by us.

Senator LONG. Senator, I might suggest we had a witness who was up here and we had the Secretary of Commerce. We can get you that answer. This is not the witness who is involved.

Secretary WIRTZ. That is right. I have no reservations, Mr. Chairman, about the answer; simply as a matter of official competence, it is hard for me to try to cover.

Senator HARTKE. Mr. Chairman, let me point out, I am coming up basically to what I think is the very important part. I would like to see the U.S. Government go down one road, but it is pretty hard for it to go down one road in an action which is as complicated and as complex as this one is, unless we have at least an understanding between the Secretaries and the Cabinet members, an understanding as to what happened here and an effort to make a judgment in light of all the facts instead of just doing it piecemeal.

There is no question in my mind, for example, and I will defend the Secretary's position on this, that if we are faced simply with the proposition of losing quite a healthy hunk of American business to Canadians unless we enter into an agreement, then we should use all of our energy and all of our ingenuity to come to an agreement.

Senator LONG. Senator, one problem about this is that while we can ask these members of the President's Cabinet and the official witnesses for the administration to come and testify, we can't compel

Senators to be here. We had the Secretary of Labor, the Secretary of Commerce, the Under Secretary of State, Mr. Mann, up here, all three of them, at a previous hearing. I regret the Senator wasn't here, but they were all here to answer.

Senator HARTKE. I was the last one to leave, Mr. Chairman. I was here. I was here after the presiding officer at the moment was not here, and I agreed to stay all afternoon and all night, and I am willing to stay until Christmas, I am in no hurry to go anyplace.

I have no plans to leave the country or even go back to Indiana except overnight, which I will have to do tonight again and come back tomorrow morning, but that is all right with me. I will fly out at 4:55 or 7:55 and come back if we can keep the airplanes flying.

Senator LONG. May I say to the Senator so far as I am concerned I will cooperate with him to the best of my ability to get all the information he wants. But he is asking the witness here from Labor about something that has to do with trade relations. Now I can give him that answer. He says did the Canadians start this? If he wants to know it, we will find it out. However, that is what the Secretary of Commerce testified to on the trade relations issue, and I would ask you to ask it of him. If he wants to, I will get the Secretary up here today to answer the questions.

Senator HARTKE. I will ask the question. Maybe I will clarify this.

Has this matter been the subject of discussion among members of the Cabinet, or aren't you folks speaking on this matter?

Secretary WIRTZ. I didn't hear the last part of the question?

Senator HARTKE. It is a cutting remark, I will have to admit, let me delete that.

Secretary WIRTZ. The answer to the first part, Senator—

Senator HARTKE. Let me ask you, have the Cabinet members had a discussion on this matter?

Secretary WIRTZ. So far as I know, there has been complete discussion among all the interested officers in the administration and there is not one whit of difference.

Senator HARTKE. All right.

Secretary WIRTZ. With respect to the desirability of and the necessity of the program.

Senator HARTKE. Well, politically—let me say this to you—politically, as far as we are concerned, I think we went into this with clean hands and if there is anyone who has any apology to make I would say it should be the Canadians, in regard to the unilateral action that was taken. I think, in view of that, we have nothing to apologize for, and certainly we have every right to consider what is going to be the result upon our industry and our jobs. We don't have to act under the hammer, so to speak.

Secretary WIRTZ. I would agree completely.

Senator HARTKE. Have you discussed with the Treasury Department the effect upon our balance of payments?

Secretary WIRTZ. I don't have—I haven't been personally involved in any extensive discussions in that matter. There has been interdepartmental discussion of that aspect of it. There will be a witness from the Treasury Department.

Senator HARTKE. Let me ask you this, and if you don't feel competent to answer, that is all right.

Do you know what the present money market is in Canada in regard to plant expansion? Is there an availability of ready investment capital in Canada?

Secretary WIRTZ. In your terms, Senator, I would be incompetent to answer that question.

Senator HARTKE. You are aware the President said that our balance-of-payments situation is one which is of prime concern; isn't that right?

Secretary WIRTZ. That is right.

Senator HARTKE. And you are aware that we have instituted certain actions which have prohibited investment capital in the United States from going outside the United States; isn't that true?

Secretary WIRTZ. That would be, again, on a side on which Treasury should answer.

Senator HARTKE. Let me go back to the adjustments assistance section for just one question. Mr. Woodcock of UAW felt adjustment payments would or should come into play as a result of retooling or plant modernization, shutdown. Would you envision this as a type of operation which would trigger the adjustments assistance section?

Secretary WIRTZ. I would have to check the facts in that particular case, Senator. There has in general been a broad parallel between the witnesses testimony, the private witnesses testimony, as to the application of the provisions and our own. I know no basic difference between the two. The particular case I would have to find out more facts about.

Senator HARTKE. That is all I have, Mr. Chairman.

Senator LONG. I do want to ask you about one or two matters that stirred my intellectual curiosity while the other Senators were asking questions.

Mr. Secretary, it has been indicated that Canada has benefited as a result of this agreement, the agreement, and expects to benefit further. Can this be regarded as a part of the overall growth—can this improvement of the Canadian automobile industry be regarded as a part of the overall growth of the auto industry in the United States and Canada?

Secretary WIRTZ. Yes, I think a large part, Mr. Chairman. I don't mean to suggest that there could be identified a complete equality of gain between the two nor would I mean to disregard the fact that I think that the comparative gains in Canada will be in some respects larger than in this country, at least in most immediate terms.

But my answer to your question, which I think is a quite basic question, is that the basic element of cause in that situation would be the strengthening of the industry as a whole, the improvement of the market, and that the advantage to which you refer would come largely from that invigoration of the industry.

Senator LONG. Do you know whether or not Canada is having some difficulty with her balance of payments and with her balance of trade in order to find enough foreign exchange to grow as that country would hope to grow?

Secretary Wirtz. Again, I am torn between the impulse to answer shortly and in general terms which permit an affirmative answer to your question and on the other hand my realization that the other departments of the Government have a larger grasp of that. But the answer to your question is certainly "Yes."

Senator Long. If Canada is trying to improve her situation with regard to her trade picture and if she is having difficulty with her international payments, would not the logical place for Canada to move to improve her trade balance and balance of payments be in the area of automobiles where we are shipping her \$10 in value every time she ships us \$1? In other words, wouldn't that be a logical place for Canada to move if she wanted to improve her balance of trade and exchange?

Secretary Wirtz. I am sure it would.

Senator Long. If that nation erected a high tariff wall—and 10 to 1 she would pick up a lot of things that we would sell in Canada—wouldn't that be of concern to anybody who wants to sell automobile parts in Canada?

Secretary Wirtz. Yes, sir; it would.

Senator Long. It has been indicated this appears to be a good deal for Canada.

Let me ask you from your point of view, are you trying to work out some deal where it wouldn't be a good deal for Canada?

Secretary Wirtz. No, the contrary.

Senator Long. In other words, what we are seeking to do is make it a good deal in both ways. We want to protect that advantage we have a 10 to 1 in automobile parts, and at the same time we want Canada to produce more automobiles for sale to her own people; is that correct?

Secretary Wirtz. That is my understanding completely.

Senator Long. As I understand it, a question was asked about why the prices of automobiles hasn't gone down in Canada because of the reduction in tariff thus far. Is it not correct that the Canadians will not be able to continue this tariff reduction, and this lower cost if the Americans do not implement this agreement, so if we do not deliver on our end Canada is going to have to go back and put those tariffs back on our automobile parts? Isn't that about the size of it?

Secretary Wirtz. It surely would be one of the possibilities and one we are trying to avoid.

Senator Long. Well, if you were trading—

Secretary Wirtz. I don't mean a complicated answer. I don't know what Canada would do. My reaction to the situation is exactly as you suggested, my answer would be generally affirmative so far as I know.

Senator Long. But when we get to the question of whether the Canadians reduce their automobile prices as a result of reduction in cost, isn't that really a problem for the Canadian Government rather than a problem for this Government? For example, when we are reducing the tariff, there is a tax on automobiles, we ask these major automobile companies to give us letters saying they were going to cut their prices when they cut their tax. But isn't that beyond the power

of this Government to assure that the Canadians get a price reduction when they get a cost reduction?

Secretary WIRTZ. As a matter of legal power, certainly, I confess in answering your question that I feel a concern which I think is general, about whether the benefits of what we are talking about here will be passed on in both countries to the consumer, because I think that is part of the necessary development of the invigoration of the industry upon which we depend here, so that I would agree with you completely, that as a matter of authority, the authority there is in Canada, except for the practical question which may be involved by virtue of the fact that a good many of these companies are subsidiaries of U.S. corporations, but that doesn't change the legal authority, the constitutional authority situation, so I would answer yes to that. I would add to my answer only that I hope very strongly that the administration of the program will in one way or another result in the passing on of benefits to the consumer because I think that is important to the invigoration of the industry.

Senator LONG. Well, you sat here and heard the Secretary of Commerce answer when he testified, sitting in the chair right beside you with him, that the automobile industry had cause to fear if this country does not implement its end of the agreement, that the Canadian Government might not only put that tariff back on, but put it on retroactively?

Secretary WIRTZ. That is correct.

Senator LONG. In that case if they had reduced their price depending upon this tariff reduction which they had had, they would be in a very bad position.

Secretary WIRTZ. My view, Mr. Chairman, parallels that of the Secretary of Commerce completely, that there is a great deal riding here, that the future strength of the industry does depend upon the action which we are talking about here.

Senator HARTKE. Mr. Chairman, will you yield at that point?

Senator LONG. I will be through. Let me ask two more questions.

Senator HARTKE. I would like to ask in regard to that answer.

Senator LONG. Go ahead.

Senator HARTKE. I would really like clarification. Are you speaking with regard to the situation before the remission scheme went into effect, either part 1 or part 2? Or are you referring by comparison to the time after the remission scheme went into effect with its first part which dealt with transmissions, or to its full implications after that? In other words, what is the relationship, in relation to what?

Senator LONG. All I was referring in my question was what the Secretary of Commerce told us here when he was here the other day, that the Canadian manufacturers had cause to fear that if they reduced prices based on this agreement prior to the United States implementing it, and if the United States failed to implement this agreement the Canadian Government might feel that they were justified, since we had not delivered on our end of the agreement. They might very well feel justified in going back and putting their tariff on retroactive to the date they cut it, the date when they took the tariffs off. If that should be the case, the Canadian manufacturers not only would have to increase price, they would have lost whatever they had made by selling automobiles and by relying upon a tariff reduction which was reim-

posed retroactively. I just spoke on the general issue of why has not the cost of automobiles gone down in Canada. My point is the Canadians are in no position to depend upon this tariff reduction unless and until they see that the United States has delivered on that end.

That is what I understand the Secretary of Commerce's answer would be.

Secretary WIRTZ. That is my understanding, and I would subscribe completely to his answer.

Senator LONG. There has been some speculation as to all sorts of things that could happen as a result of the discretionary angle. If this were some Machiavellian scheme by monopoly to run small business out of business, or if this were some scheme by manufacturers in this country to turn American industry over to Canadian producers, or if this were some plot whereby American workers were to lose their jobs for the benefit of Canadian workers—these are all speculations. Now, if those discretionary powers that exist in the President were to be used contrary to the best interests of this country, if that were the intent, I can see that there would be a real danger to American industry in this. But would it not be more correct to say that these discretionary powers in the President are there for exactly the opposite reason; to assure that nothing of this sort will happen to American industry or American labor?

Secretary WIRTZ. That is my thought, Mr. Chairman. I think the bill is very carefully drafted to accomplish that purpose and presents the most responsible constructive possible basis for going ahead.

Senator LONG. Now, the segments of American labor we are speaking about, and the segments of American industry we are speaking of, are not a part of this Nation's economy that have been regarded as being subject just to being written off—

Secretary WIRTZ. That is correct.

Senator LONG (continuing). Either from a political or economic point of view. This is a basic, essential segment of industry, and one of the most essential segments of labor in our country, is that not correct?

Secretary WIRTZ. That is correct.

Senator LONG. And both from the economic and political point of view.

Secretary WIRTZ. Strong enough that I think we can expect that as an additional reason to anticipate the most responsible administration of those provisions.

Senator LONG. I thank you.

Senator CARLSON. Mr. Secretary, when you were here last week I asked one or two questions on this adjustments assistance section, and I assure you this is what I am going to stay with. I have some concern about it. We did write the Trade Expansion Act, and as I understand it, it is not too satisfactory, but I am wondering if we have not gone too far in trying to expand that, at least thought along that line when it comes to dislocation.

I wonder now how far we are going when we get into dislocations resulting from business decisions made within the automotive industry and even within a specific company, how far, what does it really mean? How far are we going into individual companies?

Secretary WIRTZ. I think it is a fair point, Senator Carlson, that what is done here is to try to identify as many different situations as could conceivably cause dislocation to a firm or to a group of workers, and to open that door very wide and then to make provisions for a procedure which will be sure to separate out the cases of propriety from impropriety.

I call attention of the fact that after setting out the specific provisions, the bill then goes on to say that even if those provisions, those specific provisions, are satisfied, there must be a determination as to whether, standing back and looking at it when you are through, this is nevertheless a case in which there might have been other explanations, and so it is required that not only the specific points be made and considered but also that there be a final determination that even if those points are all met there will not be a finding unless it is decided that this is the reason for the dislocation.

Now, that is a long answer to your question, but your question almost requires a kind of subjective answer.

The bill does provide for a consideration of all these kinds of possibilities. I am satisfied that the procedures then to require the limitation of the benefits to those situations in which it is responsibly found that results from this.

Senator CARLSON. I just want to say I appreciate a long answer because it is one of the things I need to resolve. When you get into a bill as I read it on page 18, when you get to dislocations, you consider a level of reasonable profit, for instance. I can see where you would consider unemployment or underemployment, but such conditions as the idling of productive facilities, does that mean if we have some people laid off, the plant is still operating, the inability to operate at a level of reasonable profit, as I just mentioned, those are going to be new terms based on what we did in the Trade Expansion Act, and one that really concerns me unless you, as you have, give us assurance it is going to be considered, all these phases, and a decision made.

Who is going to make that decision?

Secretary WIRTZ. The President will make the decision. The contemplation, Senator, is that that authority would be delegated and this appears in the previous legislative history of the bill, that it would be delegated to a three-man board comprised of the Secretary of the Treasury, the Secretary of Commerce, and the Secretary of Labor—that the President's authority would be exercised through that body.

With that, plus the finding of fact by the Tariff Commission, it does seem to me that the strong likelihood is that there will be no irresponsibility to whatever extent you can guarantee that.

Now, the particular provisions to which you refer are also in the Trade Expansion Act, and the experience there would indicate that those particular provisions do not create the possibility of the abuse to which you refer.

I mention more generally and quite candidly that the door here is a wide door, no question about that, and the approach taken is that by opening that door wide and then by establishing the highest, most responsible procedure possible, plus the specifications, that the proper result will be reached.

The short answer, I suppose, to the particular point you have raised is that in the administration of the Trade Expansion Act involving those same phrases there has been no abuse permitted, in fact no finding yet of any dislocation allowance situation.

Senator CARLSON. That is all, Mr. Chairman.

Senator LONG. Any further questions?

Senator GORZ. Mr. Chairman, I was quite interested in your references to the possible Machiavellian schemes or plots. My questions did not devolve upon the Machiavellian character of the pending bill and the agreements which it would endorse and implement. I was referring to the exact agreements that have already been entered into, not Machiavellian but business agreements. They are agreements which have not only as their purpose, but in stated terms, the increase of automotive employment and facilities in Canada for the manufacture of vehicles and parts for which facilities now exist and are now being used in the United States.

I undertook to show, and with the help and assistance of the Secretary I think demonstrated, that this bill contains provision for the President to use taxpayers' funds to compensate either firms or workers who face dislocation or the threat of dislocation as a result not of the—not just by terms of the agreement between the Government of the United States and the Government of Canada, but by reason of these private agreements that have already been entered into, and further to illustrate the point, I have asked my staff to supply me with some material that has come to my office. I would like to read a telegram which I have received. This is from Detroit:

Our heartiest congratulations to you and your forthright and perceptive opposition to the Canadian-United States Auto Tariff Agreement now under Senate consideration. Our members have already been informed that the entire leaf spring operation in the Spring Division of Eaton Manufacturing Co. will cease at the end of the 1966 model year because this product will be manufactured exclusively in a new Eaton Canadian facility thereafter. This means that 350 of our members will have their jobs completely eliminated because of the private assurances to Canada of a substantial business increase. No doubt many more U.S. firms such as Eaton Manufacturing Co. will be transferring their operations to Canada to avail themselves of the competitive advantages these assurances provide. Consequently many more U.S. workers will be losing their jobs once the agreement becomes fully effective.

We respectfully request that you continue your endeavor to achieve Senate rejection of this trade restricting agreement with the wholehearted support of every member of this local union.

Sincerely, local 368, United Automobile Workers, AFL-CIO, Warren Mika, President, 7151 Palmetto Avenue, Detroit, Mich.

Here is a group of workers who have already been notified that their jobs will be terminated at the end of the production of the current model.

Mr. Secretary, just what benefits are available to the President to give to these workers if he determines that they have either been dislocated or that dislocation threatens them as a result of the private agreements entered into by the automobile companies in Canada? Will you spell out those benefits?

Secretary WIRTZ. Yes; those benefits, Senator, would be those set out specifically in chapter 3 of the Trade Expansion Act. They include relocation. They include first the allowances, what we call the trade readjustment allowances in general. That is an allowance which amounts to about 65 percent of their weekly earnings or the

national average manufacturing wage, whichever is lower, for an extended period of time, for at least 52 weeks and in some cases for a longer time. They include special training provisions; they also include relocation allowances of one kind or another. They are precisely the benefits incorporated here by reference which are set out in the Trade Expansion Act.

I should say that the application of those benefits depends upon the individual's qualifying. There is a provision of the act which requires they have had a considerable attachment to the work force and also an attachment to this particular firm.

But assuming the satisfying of those requirements, there would be those benefits.

Senator GORE. Secretary Mann——

Senator HARTKE. Will the Senator yield?

Are you referring to the TEA or are you referring to the adjustment assistance provision in this bill?

Secretary WIRTZ. They become the same, Senator, the section 301 benefits are read into this act.

Senator HARTKE. I understand that. But not the criteria for finding injury.

Secretary WIRTZ. Not the criteria for finding injury. The qualifications of the workers are the same in connection with the work force but the criteria are different.

Senator HARTKE. Under the present TEA, under the Trade Expansion Act, we have not had a finding yet of any case of sufficient injury to have anybody qualify. Is that correct?

Secretary WIRTZ. That is correct.

Senator HARTKE. So the real expectation for these fine people in Detroit is that they are just going to have to go on unemployment insurance and then hopefully the Secretary of Labor will come in with a program. I want you to know I am not opposed to these programs, but he has to come in with a program, and we will spend I think \$8,000 to \$9,000 per man to try to retrain them, and then hopefully find them another job. More than likely some of these people will be older people so they will find jobs where payment will be much less than what the UAW scale is. But that is about the pattern, is it not?

Secretary WIRTZ. No, I do not believe so, Senator. The difference here is that the procedure is established which will mean the application of the statutory benefits in situations in which they have not been allowed under the Trade Expansion Act so I would expect a completely different set of answers here from there.

The benefits are the same. The procedures for determining where they are allowable are quite basically different.

Senator HARTKE. All right. That assumes that this agreement goes into effect, but if this agreement does not go in to effect——

Secretary WIRTZ. I beg your pardon?

Senator HARTKE. There is no reasonable expectation on the part of these people except to go through the human misery of going on unemployment compensation and going back to school under a retraining program of the Federal Government and hope thereby to be placed in new jobs as best they can. But certainly there is every reason to anticipate that in that case they will be earning less than they are at the present time.

Secretary WIRTZ. Yes, sir.

Senator GORE. I would like to suggest there is one other difference, Senator Hartke. Under the Trade Expansion Act the benefits flow to individuals or concerns who suffer injury as a result of an agreement of the U.S. Government with other governments. In this case the U.S. Government—the bill provides—will pay benefits to both workers and concerns for injury received as a result of not only the agreement of the Government of the United States with Canada, but as a result of the private deals or agreements that have been entered into. This is unprecedented.

Senator HARTKE. I might point out to my colleague from Tennessee that in spite of everything else, there is also this threat of dislocation on the Canadian side. In fact, I think they have at the Windsor plant of Ford Motor Co. a similar displacement of about 1,600 workers. That is not covered in this agreement, but what is going to happen to them also becomes a matter of great concern. I don't say that it is a matter for which we have a direct primary responsibility, but I am trying to point out that somebody eventually, according to these private agreements, and this agreement, is going to pay the bill for a lot of people who will be moved around or else unemployed. I am not saying who is going to pay the bill, but it appears that the Governments are going to be asked to pay the bill.

Senator LONG. Well, now, Mr. Secretary, you testified to us that you feel that we have 25,000 jobs at stake, and that we sell Canada about \$10 in automobiles and automobile parts for every dollar she sells us. Now, if the Canadians—

Senator GORE. Mr. Chairman, I had not concluded. I had yielded to Senator Hartke.

Senator LONG. I thought you had permitted another Senator to make a statement.

Senator GORE. I will be glad to yield to you, but I just point out I had not yet concluded.

I yield.

Senator LONG. You had stated that you have 25,000 jobs at stake and we sell them \$10 for every dollar they sell us. If the Canadians proceed down this road, they make tariff barriers higher and we resort to various measures to reduce their trade with us, and they get to the point where they had imposed some of these restrictive European-type restrictions on our imports of automobile products, which means that we could import practically none or just a token amount. I take it that we would stand to lose 25,000 jobs and they would stand to lose 2,500; that would be about the ratio.

Secretary WIRTZ. That would be about right. I think it will supplement your question at the point that we make clearer than it has been, or I have made it. The difference in those figures what we are talking about in terms of 1964 employment in the automobile industry is 771,000 jobs in the United States and 65,000 jobs in Canada, and there are some interesting things about that, too.

It is true that in Canadian industry employment has gone up during the past year. It is true, of course, that we have gone up in terms of hundreds of thousands compared with their tens of thousands. It is important, and I appreciate your directing attention to it of what we are talking about here, is a very large number of jobs compared

with a much smaller number of jobs there, and we are talking, as you have suggested, referring to my earlier statement, we are talking about between 25,000 and 50,000 or more jobs involved in this particular point. The 25,000 figure, Mr. Chairman, is the direct involvement of jobs in automobile and automobile parts which have been exported to Canada. If you had the jobs which are affected behind those jobs, the indirect effect is between 50,000 and 60,000.

Senator GORE. Just one moment, and I will go ahead and yield to you, Senator Hartke.

Mr. Secretary, you and Senator Long keep referring to the fact that there are more jobs in the U.S. automobile industry than there are in Canada. I don't think that is a matter of contention at all. This country is about 10 times as large as Canada, isn't it?

Secretary WIRTZ. I would assume from these figures that the population is about in that relationship.

Senator GORE. And the automobile industry, in the Western Hemisphere, is peculiarly located in the United States and began in the United States.

We have a competitive advantage which we should be trying to retain.

Now, in other industries, Canada has a competitive advantage so when we undertake to approach the balance-of-payments problem in this whole question of Canadian-American relationships strictly on the basis of the one item of commerce in which we have the greatest competitive advantage, then the whole question is thrown into disproportion and this is what the complaint is about. Indeed that is what the agreement is about. Disproportionate growth of the automobile industry in Canada is sought by this agreement, is promoted by this agreement, and is agreed to by this agreement and by the private agreements between the automobile concerns and Canada.

Now, I would support you in trying to execute an agreement to give to Canada a proportionate share of the growth of the automotive industry, but that is not the goal, that is not the purpose, that is not the effect of this agreement plus the private agreements. It is disproportionate, and I think unfair, an unfair share of the growth, a share of the growth which will be to the detriment of American workers and American small business concerns.

So let's hold—I would like, so far as I am concerned, to hold the hearing to the facts presented in the agreement and the bill and the private agreements which will be implemented in consequence of the bill.

I yield now.

Senator LONG. Does the Secretary care to comment on that? Oft-times I make a statement and it is not in the form of a question. But the Secretary, as a witness, would you care to comment on that?

Secretary WIRTZ. I think not, Mr. Chairman. I could hardly comment without becoming argumentative, which I don't think is my function here, and also repetitive because I have tried to make it clear because I think the great importance of this does not go to the past. It goes to the future. There were developments in the past which all of us—

Senator GORE. Excuse me—

Senator LONG. He is continuing on it. If he wants to respond, he is entitled to respond, Senator.

Senator GORE. I am perfectly willing. I thought he had concluded.

Secretary WIRTZ. I think there are developments in the past which might call for fair comment or criticism of one kind or the other. I just see a plain, realistic, practical question of whether the automobile industry is going to be stronger on this continent and whether the U.S. position is going to be stronger in terms of large firms and small firms, the Big Four firms and all other firms if we do or do not have a rational international trade policy on automotive products and parts, and I see that rational policy reflected in the bill which is presently before the Senate, and I see an alternative of chaos, of confusion, of snapping and biting and of weakening of the industry and, I, therefore, address my argument, not, Senator Gore, to whatever may have been the past but what to me is clearly the future, and I opt, as I hope the Nation will and I hope the Congress will, for a procedure which takes a situation as is encountered right now and which says there will be more business in the whole of the industry on the continent, there will be more business for American companies and there will be more business for Canadian companies and there will be more jobs for American workers and there will be more jobs for Canadian workers if we go down this route than there will be if we go down the route of export—of duty wars of one kind or another, and I know that does bring me into a position different from your own, and I appreciate the Chair's opportunity given me to simply state it. I hope not to be argumentative.

Senator GORE. Mr. Secretary, it seems to me you leave the implication—In your answer, in your comment upon my statement, you say you prefer to deal with the future instead of the past. I respectfully call to your attention that every word of my statement referred to the future, referred to this agreement, the private agreements, and the effect of these agreements in the future if this bill is approved, and yet you say you don't wish to comment upon the past. You want to deal with the future.

So do I. That is what I was seeking to deal with.

You express the hope that the country will opt to approve this bill, or the Congress will. This hearing thus far has engendered opposition rather than support and some of the reasons for it are clear.

Secretary Mann in his very first sentence referred to this as a free trade bill.

I want to ask you, free trade for whom? Can an automobile dealer in Detroit, Indiana, Tennessee, Louisiana—can an automobile dealer in the United States any place—take a new Chevrolet, Ford, or Chrysler to Canada and sell it without payment of the tariff, as a result of this agreement?

Secretary WIRTZ. Well—is that the question?

Senator GORE. That is the question.

Secretary WIRTZ. My answer would be the same as the answer which Secretary Mann and Secretary Connor gave to the same question. I think the record should be made clear, too. I don't have Under Secretary Mann's testimony before me. The same point was made there and my recollection is that he pointed out, and I thought quite properly, that his statement was that this is an approach toward free trade and he recognized quite freely that it does not accomplish the full purpose of as free as possible trade. So with respect to the state-

ment, I think the record should remain correct as it was before, and with respect to the particular point of the application of this rule, my answer would be the same as that given by Under Secretary Mann and Secretary Connor.

Senator GORE. Well, then, I will submit my question again. Thanks for that elucidation.

Can a U.S. automobile dealer take a new U.S.-manufactured automobile to Canada and sell it without payment of tax, as a result of this agreement or not?

Secretary WIRTZ. Senator Gore, I just am going to have to insist, at whatever risk there may be in terms of a suggestion of incompetence or whatever, that the answers which are most helpful to the committee are those on these points which come from those much more familiar with the provisions of that part of this bill than I. My testimony is in terms of the adjustment provisions. I am glad to be as helpful as I can to the committee on a broader basis, but when it comes to questions of the application of the bill in particular situations to particular transactions I should request the opportunity of deferring the answers which have already been given and frankly to consult the record if there is any possibility of confusion. There is no point in my confusing the committee with answers which would be different.

Senator GORE. I understood that—

Senator LONG. Mr. Boyett—

Senator GORE. I do not yield just now, thank you.

I understood that the first day of the hearing we had the unusual situation of three Cabinet members requesting to sit at the table together, that they were agreed they had consulted on the issues fully. It is not difficult to come by the answer.

Secretary WIRTZ. Not at all; the answer is plain "No," as we all know this came up in the testimony before, but I am quite insistent.

Senator GORE. All right.

Secretary WIRTZ. Not insistent to the point of not answering. No, Senator, I will answer any questions whatever, at the expense of time or difficulty put to me. This particular question which was discussed some 15 or 20 minutes the other day, and I know the answer as well as from previous conversations is "No." I don't think I am helpful in possibly confusing the answer; the answer is "No" to your particular question.

Senator GORE. Thank you.

Then, it isn't free trade to Canada, or American citizens, or American small businessmen, the free entry to Canada for an automobile is only to the automobile makers. The tariff, Canadian tariff, is 17½ percent on new automobiles which amounts to \$500 to \$800 on the popular makes of automobiles. The automobile companies, as has been pointed out, of the United States, the manufacturing companies, have been shipping their automobiles into Canada without the payment of this tariff since, I believe, January.

Secretary WIRTZ. I think that is right.

Senator GORE. This would represent an enormous sum and as has been pointed out there has been no reduction in prices to the consumers in Canada. The Big Four have been pocketing that money. It is free trade for them, not for the American people.

I would like to ask you about parts, automobile parts manufactured in the United States.

The duty has been taken off of those parts likewise for some by Canada. Now, to who must a U.S. parts manufacturer ship those parts in order to obtain duty-free status?

Secretary WIRTZ. I don't know. I will be glad to find out and, with your permission, Mr. Chairman, if the questioning is to go down these lines I will need the assistance of those who have been working on this with me. I have with me the Manpower Administrator, Stanley Ruttenberg; the Assistant Manpower Administrator for Trade Expansion, Mr. Eaton, they are here because of the great importance that we attached to the preservation of 25,000, 50,000 or 60,000 jobs in this country. They are familiar with the details of those parts of the statute which do not involve any responsibility on the part of the Department of Labor, and I will be glad to put those questions to them and would ask, with your permission, Mr. Ruttenberg answer the question which has just been put.

Senator GORE. Mr. Chairman, I am perfectly willing for the answer to come from any one of these distinguished gentlemen at the table. I am not in any way seeking to be oppressive to the distinguished Secretary. I certainly have no such intention.

I hope I am not leaving any such impression.

Secretary WIRTZ. If I could remember the answers that I heard to these same questions last week, I would give you those. But I don't remember them. They were all asked; they are all in the record.

My answers will be the same. I have with me those who are in position to repeat those answers last week and perhaps Mr. Eaton, who has worked more closely with it, would be better. But there is no desire to evade the questions.

Senator GORE. Mr. Secretary, I appreciate your reluctance. I certainly won't press you to answer anything you don't wish to answer.

Secretary WIRTZ. I want to answer.

Senator GORE. Well, fine.

Senator LONG. May I just say this. I want to accord the Senator every courtesy. But it is not at all unusual for witnesses to testify before us on some points that they don't know the answer to that fine point. That is not within their particular competence, and they ask that someone better qualified to answer that question. On occasion, we have called on our own staff. We did, in the hearing that immediately preceded this, call upon our staff what would the legal consequences of that particular action be.

Here is Mr. Boyett testifying to Senator Hartke's question on the same point, and he answered "No," can a U.S. citizen go to Canada and buy a Canadian automobile and bring it back to United States duty free. The answer is "No," and the same thing is true of parts and the same thing works the other way around, but if the Senator wants to cover it, why it just seems to me there is no particular point making a witness who doesn't feel that falls within his particular competence to answer it, and that is why we had the three Secretaries up here, the Under Secretary of State, the Secretary of Commerce, and the Secretary of Labor, and then also brought Mr. Boyett and others up here to answer that—to make sure that the fellow who had the answer to it

would provide it and if the Secretary would like to provide the information from those having it. As the Senator knows, sometimes out of conscientious desire not to misinform the committee, he asks that he may provide that for the record, and does.

Senator GORE. Well, Mr. Chairman, then I shall ask the counsel of the staff of the committee, Mr. Tom Vail, with your permission, Mr. Secretary, if that is agreeable.

Secretary WIRTZ. Surely, oh, yes.

Senator GORE. Mr. Vail, give us the provisions of the bill with respect to the application of the Canadian tariff to the importation of U.S. automobiles and automobile parts.

Mr. VAIL. Senator Gore, I don't believe it is in the bill. I believe you will find it in the blue staff pamphlet of page 7. It is in annex A of the agreement. Annex A is the annex—

Senator GORE. The bill approves the agreement.

Mr. VAIL. It does approve the agreement.

Senator GORE. Then give us the provisions. Will you step up so anyone who wishes to hear may hear? One of the purposes of a public hearing is public information.

Mr. VAIL. Annex A of the agreement contains the parts, the automobiles and so on, and the conditions under which they will be entitled to duty-free entry in Canada.

Paragraph 1 provides duty-free treatment for automobiles when imported by a manufacturer of automobiles.

Paragraph 2 provides free entry for 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.

Senator GORE. Thank you.

Just a moment. I want to know the provisions for importing into the United States.

Senator LONG. Pardon me one moment, Senator. I have to go to the floor, myself. The majority leader is not here and I have to act in his absence.

I would propose that we come back at 2 o'clock and that the Senator act as chairman as long as he cares to carry on during the morning hour which will perhaps last an hour or a half hour as the case may be. The Senator knows what the rules are in that regard, and in the event there should be some question about the committee meeting while the Senate is in session, I will suggest that we come back then a half hour after the Senate concludes, but I hope to get consent of the Senate to permit us to meet at 2, and I hope we will be through between 2 and 4 this afternoon.

Senator GORE. I will return at 2; unfortunately I have some business on the floor of the Senate.

Senator LONG. If the Senator would like to do it, we can recess now. But Senator Hartke would like to ask questions.

Senator GORE. If it is agreeable, I would like to conclude this point.

Senator LONG. Since I have to be on the floor, may I suggest we have the Senator ask some questions and then Senator Hartke ask some questions, take my place, and we will meet at 2 if the Senate gives consent.

Senator GORE. I only wish to complete this point.

Senator HARTKE. I have to go to the floor, too. I do not mind staying here but I mean—there has been some discussion. I have been here just as long—

Senator LONG. Why do you not ask your question and we will meet at 2 o'clock. Otherwise we will meet a half hour after the Senate concludes.

Senator GORE. I will conclude at this point and we will return at 2. I think it is plain from what the counsel has read that free entry into Canada is only for the manufacturer of automobiles. Now, Mr. Vail, will you give us the provisions of the agreement with respect to importation into the United States of Canadian manufactured automobiles and parts?

Mr. VAIL. Those are set forth in annex B to the agreement. They are also set forth in title IV of H.R. 9042. The first paragraph of annex B permits—would permit, if this bill is passed—free importation for motor vehicles without limitation that they be imported by a manufacturer.

Senator GORE. I am sorry. Would you repeat that?

Mr. VAIL. All right. The provisions providing for duty-free entry of automobiles and parts into this country from Canada are set forth in annex B and would be implemented by title IV of the bill that is before the committee.

The first paragraph of annex B permits duty-free entry for a motor vehicle for the transport of persons imported from Canada without limitation that it be imported by a manufacturer.

Paragraph 2 provides for duty-free entry into this country of parts for use as original equipment in the manufacture of motor vehicles.

Senator GORE. Thank you.

So we now have the provisions of the agreement provisions cited. Those provisions reveal instead of this bill being a free trade bill or one even reasonably approaching free trade, that the duty-free movement either into the United States or into Canada is limited only to the manufacturers of automobiles. Instead of this being free trade, it is a cartel dividing up the market in North America for both automobiles and parts by the Big Four. This is one of the reasons I will say, Mr. Secretary, that this hearing has thus far generated opposition, and I have not heard of anyone expressing support for it as a result of the hearings.

The committee will recess until 2 o'clock.

Secretary WIRTZ. Do you want me back then, Mr. Chairman?

Senator GORE. Yes, if you please.

(Whereupon, at 12:05 p.m., the committee recessed, to reconvene at 2 p.m. the same day.)

AFTERNOON SESSION

Senator LONG. The committee will come to order.

STATEMENT OF HON. WILLARD WIRTZ, SECRETARY OF LABOR—

Resumed

Senator LONG. Senator Gore?

Senator GORE. Mr. Secretary, will you turn to page 9 of the bill?

Secretary WIRTZ. Yes, sir.

Senator GORE. In reference to the part that the Tariff Commission may play in the Presidential determination of possible detriment to a firm or to workers as a result of the agreements, both private and public, I find this interesting provision in line 16, page 9:

"In his request the President may specify the particular kinds of data which he deems appropriate."

Would you like to comment on that sentence?

Secretary WIRTZ. I am not sure what question you have in mind in presenting, Senator Gore.

Senator GORE. Well, as I studied through the recess this whole section relating to the benefits to businesses and workers damaged by either the public or private agreements sought to be approved by this bill, I find it very interesting that the performance of the Tariff Commission is utterly a toothless facade. There is no requirement of an affirmative finding of damage. In fact, it is provided here, although I don't think it is necessary so to provide, the President would have such authority anyway—but it is interesting that the bill provides, not that the President must act upon an affirmative finding of injury by the Tariff Commission, but upon—not even upon the finding. It just provides that the Tariff Commission shall make a study and investigation and publish notice thereof in the Federal Register, but "in his request the President may specify the particular kinds of data which he deems appropriate."

It seems to me that that would certainly give color to the study that the Tariff Commission could make.

Do you know who drafted this part of the bill?

Secretary WIRTZ. No, I don't, Senator Gore. This particular provision was included in the original draft, and then was changed by the Ways and Means Committee in the House in executive session. There were some changes in subsection (e) and I don't know what the particular history of it is.

Senator GORE. Do you know who made the original draft?

Secretary WIRTZ. No, I don't.

Senator GORE. Was it made by the Labor Department?

Secretary WIRTZ. I will inquire.

(Secretary Wirtz subsequently advised that the draft was the result of the interagency group referred to below.)

Secretary WIRTZ. There was an interagency group which included the Labor Department, and Commerce, and State, principally. What the history of it is, I will be glad to inquire further as to the specific participation individual by individual, but it came from that group, and then from the work in the Ways and Means Committee.

Senator GORE. Would you think it reasonable that the Senate would approve such benefits as herein provided on such an indeterminate, arbitrary, and discretionary basis?

Secretary WIRTZ. To the form of the question, the answer would be difficult. If the question is whether I think this is a function which it could be assumed that the President of the United States would exercise responsibilities, my answer would be "Yes."

Senator GORE. Therefore, you provide both the answer and the question.

Secretary WIRTZ. No, if you should prefer, I would not be inclined to answer the question in the form in which it is put, because I have in mind, and I am sure we all would, that the question does raise an

element of doubt as to the responsibility of the exercise of his functions by the President. I should not be inclined to comment on that.

Senator GORE. Well, the Trade Act procedures provide benefits. Do you not think they would be adequate for this bill?

Secretary WIRTZ. No, I do not think the procedures would be adequate.

Senator GORE. Why? Were they adequate in your opinion for the trade bill?

Secretary WIRTZ. The original legislation did represent what I thought at the time was supported by testimony and would be a procedure which worked out properly—could be expected to work out properly. I think it did not. And that in its procedure, and the criteria which were established in the Trade Expansion Act, in the light of experience, was less than we desired and there is an attempt here to profit from that lesson by experience.

Senator GORE. Do you think the safeguards are sufficient as contained in the bill?

Secretary WIRTZ. The safeguards—I just want to be sure I understand what interest it is you are talking about. I think the safeguards are much to be preferred over those in the Trade Expansion Act.

Senator GORE. Safeguards to provide benefits or to guard their dispensation.

Secretary WIRTZ. Both.

Senator GORE. You are satisfied with it?

Secretary WIRTZ. Yes, sir.

Senator GORE. So I gathered.

Now, do you know of any instance in which we have heretofore provided for benefits from injury in an international trade move by a private corporation?

Secretary WIRTZ. I am not sure I understand that question.

Do I know of any previous instances in which we have provided for benefits, adjustment allowances, of the kind we have here as a consequence of private action?

Senator GORE. Yes.

Secretary WIRTZ. Well, in any case in which, under the Trade Expansion Act the adjustment allowances would be provided, they come as a combination of the action taken with respect to tariffs on the part of the Government in its dealings and consequently actions taken in the private economic field. I don't believe there is a basic difference here between the situation we are talking about and the ones—all those covered by the Trade Expansion Act. So that the general situation would be the same.

You do in both instances have action taken by the Government with respect to tariffs and then you also have a private economic action of one kind or another, a combination of them resulting in the situation in which the adjustment allowances are deemed necessary.

Senator GORE. In this case, however, it is the agreements entered into by the U.S. automobile manufacturers, manufacturing concerns, and Canada, which will bring about the increased automotive production in Canada, and a possible consequent decrease in the United States.

Secretary WIRTZ. Do I understand that to be a statement? Was there a question implied there?

Senator GORE. I say this is a statement—I think a statement of fact. You don't think it is unprecedented to provide taxpayers benefits for business operations of a private corporation for its own peculiar benefit?

Secretary WIRTZ. Well, again, hoping not to be argumentative, we would place, I think from what you say, a quite different emphasis on the significance of the agreement, on the one hand, the private agreements, and the governmental action of the two Governments on the other.

Senator GORE. What emphasis would you place on it?

Secretary WIRTZ. I would attach a good deal more emphasis than your question implies on the intergovernmental or the governmental quality of the action that is involved here on both sides.

Senator GORE. Well, what emphasis do you place upon the agreements made by the automobile companies of Canada?

Secretary WIRTZ. Again we are very close to the area of the history of this case which I know from secondhand, whereas others I know of firsthand. My impression of it is that those agreements play a substantial part in this picture but they are only part of a development which starts, as I think you or Senator Hartke suggested this morning, with tariff action on the part of the Canadian Government, and which includes the possibility of reciprocal action of one kind or another. So I do not count the agreements themselves the basic factors in the situation.

Senator GORE. You do not count them basic factors.

Secretary WIRTZ. I do not count them the basic factors in the situation. But I want to make it quite clear again, as I say, is that part of the record is one which others know better than I.

Senator GORE. Well, this is the part that affects employment.

Secretary WIRTZ. I think what affects—if that is a question—

Senator GORE. Well, I do not know, if you want me to precede each one with an interrogatory, well that is fine.

Secretary WIRTZ. No, I am simply saying—I would be glad to respond to the point, although I have lost it in my own interruption. The point being what, Senator?

Senator GORE. I understood you to say you were not the person best informed on this particular part of the bill, and yet I thought that earlier it was on this particular part that you came to testify.

Secretary WIRTZ. Yes, and the employment one I will be glad to respond to. I think the unemployment, the possible unemployment effects, if there should be any failure of action here, as flowing from the possibility of intergovernmental, international tariff wars of one kind or another rather than from any particular private action, and therefore I do identify the unemployment and employment elements which I am talking about quite definitely with Government action.

Senator GORE. Is it possible under this agreement and the agreements existing between the automobile companies and Canada for General Motors to build through a Canadian subsidiary a facility to manufacture springs, radiators, carburetors for their own use in the United States and import them duty free?

Secretary WIRTZ. The answer would be "Yes."

Senator GORE. Are those particular parts now supplied to General Motors by smaller U.S. business concerns?

Secretary WIRTZ. I do not know. Your question is where General Motors presently gets those particular parts, from what suppliers?

Senator GORE. Yes.

Secretary WIRTZ. I do not know. I would have to make whatever determination we can to find out.

Senator GORE. Well, let us assume for the moment—I do not ask you to supply it for the record if you do not happen to know—we will just place it, discuss it, on a hypothetical basis, if we may.

Let us suppose that General Motors does, in fact, obtain its supply of radiators, carburetors, and springs from small business concerns in the United States engaged in the manufacture of automotive parts. You have just answered that this, the agreement, which this bill would implement, plus the agreements by the automobile companies with Canada, would make it possible for General Motors to build a Canadian subsidiary, or through a Canadian subsidiary, to build facilities to manufacture for themselves these particular automotive parts and import them into the United States free of duty.

You agree that is a statement which you made?

Secretary WIRTZ. That it would be possible for the U.S. automobile manufacturer to make arrangements for the manufacture in Canada of these parts and for their purchase by that manufacture here as original equipment in automobiles duty free?

Senator GORE. Yes.

Secretary WIRTZ. That could be a factor, that could be the effect of the agreement.

Senator GORE. If that is the effect of the agreement, would that mean the loss of jobs in the United States of employees now engaged in the manufacture of springs, radiators, and carburetors for the use of General Motors?

Secretary WIRTZ. You have identified it as a hypothetical situation; do I understand by this question that would be the only effect of the agreement because if that were the only effect, I assume it would follow the answer to this question is affirmative, but of course, the larger answer would be that what is involved here is a great many situations, some of which would work in that direction, others of which would work in the opposite direction with I think the net effects not of diminution of employment but of an increase in employment. But in terms of the specific question put, the result of the application would, in the fact that you stated, include the possibility of that diminution.

Senator GORE. Well, it happens that there are a great many other instances similar to the hypothesis I have put to you. In fact, there are many thousands of manufacturers engaged in this country in the manufacture of automotive parts which they supply to the manufacturer. The purpose of the agreements entered into, and the effect of the agreements entered into, I know of no one who denies it, many I know who assert it, both in Canada and in the United States, is to increase production of automotive parts in Canada for use in the United States.

The agreements themselves provide for a disproportionate increase of automotive production in Canada, disproportionate to the increase in the United States. You will agree with that.

Secretary WIRTZ. The agreement provides for an increase in production in Canada and I did not hear the rest of it.

Senator GORE. The agreements provide for an increase in automotive production in Canada at a more rapid rate than the normal ratio of automobile production and consumption in Canada vis-a-vis the United States.

Secretary WIRTZ. You are talking about those private agreements and my understanding is, as you have stated it; I am frank to say again that I am in an area of not complete familiarity, but my understanding parallels your statement on that point.

Senator GORE. I think—I am not trying to get into an argument with you. Here is something about which you and Secretary Mann and Secretary Connor and others testified in generality, that there is going to be more production of automobiles and more employment in the automotive industry in North America. I surely hope that is true. I expect it will be true. But the increase in production is to be disproportionate in favor of Canada and of workers in Canada as a result of these agreements. Do you agree to that?

Secretary WIRTZ. I just frankly do not know the answer to that nor am I at all clear that there is a basis for that answer available at the present time. I do not know what the future will be. If the question is whether the automobile industry may be expected to grow faster in percentage terms from the present base in Canada or in the United States, my understanding the answer to that question would be in the affirmative.

If the question is whether, or the other hand, in bulk, in absolute terms, there is to be a larger increase in one place than the other, I think the answer is there would be a much larger increase in the United States. The identification of the extent to which that increased percentage growth in Canada might be attributable to the working of this agreement, I do not know, and the answer would necessarily depend on what is used as a base for the comparison. If the base, is, as I believe it to be, what would happen to the two countries absent the agreement and the legislation we are here considering, then my answer would be that it would be larger in the United States than it would be absent that agreement. But the attribution of the future growth of the automobile industry in Canada to this bill or to this agreement and a comparison of what that growth will be with some other situation unidentified, I am not in position to know.

Senator GORE. Mr. Secretary, if these agreements contained any stipulation, if I may say so respectfully, those stipulations are for an increase in automotive facilities in Canada. If you are not aware of that, and its employment potential, then I am surprised.

Secretary WIRTZ. I would be, too.

Senator GORE. You are not aware of it?

Secretary WIRTZ. No, I say I would be surprised if I were not aware of that and nothing that I have said—

Senator GORE. Then are you aware of it?

Secretary WIRTZ. If the question is whether I am aware of the prospect of increased production of automobiles and automotive parts in Canada, I surely am.

Senator GORE. You are?

Secretary WIRTZ. Sure.

Senator GORE. And that the agreements so provide.

Secretary WIRTZ. The private agreements do contain those references to particular expansion, and I am sure that is—if that is to which you refer.

Senator GORE. Well, Mr. Secretary, I honestly do not know quite why it takes so long to get to the point.

Secretary WIRTZ. That has bothered me, too, Senator.

Senator GORE. I am trying to be cooperative if you will undertake to be a little more so.

Secretary WIRTZ. I will do by best, Senator. You will respect the fact that I want them to be my answers, to make them as clear as I can, but certainly in the interest of saving time I share completely with you.

Senator GORE. Then we have that settled, that the agreements do provide for an increased automotive production in Canada, and that increase is to be on an annual basis through the 1968 model. Do you agree on that?

Secretary WIRTZ. I would have to check the agreements and the previous testimony on that, but I will be glad to do it. I think the answer is "Yes." But let me answer in the affirmative but subject to the documents which are part of the committee print and subject to the statements the Secretary of Commerce made which were directly on that point. Subject to any disagreement or difference there, the answer is "Yes." Yes, I have checked the agreements. The reference in the agreements is to the end of the model year 1968.

Senator GORE. I did not hear that, I am sorry.

Secretary WIRTZ. I have checked the committee prints which set out the agreements, and the answer to the question is that the reference to increased production, the increased Canadian value added in the letters is for the period between 1964 and then, with respect to your specific question, the end of the model year 1968, that is correct.

Senator GORE. I yield.

Senator HARTKE. Was the question in regard to the increased total or the Canadian value added?

Secretary WIRTZ. I think the question was put in terms of the increased total. The reference in the agreement is to the increased Canadian value or at least the one which I am looking at now which is the General Motors' letter, the reference there is to the increased Canadian value added.

Senator HARTKE. Yes, but that is different, a different item entirely than I understood was involved in the question that Senator Gore asked. As I understood it, the Senator from Tennessee did not refer to what we used to call Canadian content or what they redefine now as Canadian value added, but that he refers to the content of the production, total automobile production, that is going to be Canadian made.

Secretary WIRTZ. Senator Hartke, maybe I am confused on the point. My understanding of the last question was as to whether the increase provided for and referred to specifically in the exchange of private letters did relate to a period which ended with model year 1968 now so far as I know, but I will be glad to check further. The only reference in the agreement to the end of model year 1968 is the one with respect to increased Canadian value.

Senator HARTKE. This whole question of Canadian value is a matter which bothers me considerably because this is the heart of the restric-

tion of this bill and what really keeps it from being a free trade item. The publication to which I previously referred, "The Financial Post" of September 18, 1965, in reference to the so-called commitments which were made by the companies, says that:

Ford Motor Co. of Canada and Chrysler Canada, Ltd., with some expansion plans already underway announced, have already provided some indications of the direction of their program. General Motors is maintaining utmost secrecy to date on its forward planning. Although Ford and Chrysler are substantially boosting Canadian make content—

which is the same thing as Canadian value added—

in the 1966 model, General Motors is believed to be sitting tight. And if GM does not replace its expected boosted orders within the next couple of months, they will be too late to be incorporated in the 1967 models as well. Auto companies have made commitments to the Federal Government—

that is the Canadian Federal Government—

in return for the establishment of a free trade barter between Canada and the United States in automotive parts to boost the Canadian content of their production—

here is the key phrase—

beyond normal market growth.

In other words, this is beyond their present situation, plus the normal market growth which would be about 60 percent—

by a total of approximately \$260 million by 1968. The big auto parts program has already swung into high gear, and the Canadian content of 1966 models without benefit of export is estimated at around 70 percent. The proportion was around 60 percent last year. By 1968 if the auto pact is soon cleared the proportion should rise to around 80 percent.

You see, that really brings you back basically to the problem which was previously brought out by the Secretary of Commerce, and that was that we were faced with this possibility of a higher restriction on the content similar to those from other nations. But if the Canadian press is correct that you are going to have an 80-percent Canadian value added in these products, only 20 percent is left of the total that can be produced in America.

Secretary WIRTZ. That is the Canadian market, is that right?

Senator HARTKE. No, that is for the total agreement. It is the North American market. That is according to this report. I am not saying this report is accurate, but what I am saying is this is the way the Canadians are viewing it.

What you are going to have here is an automobile business in which we have agreed to share the North American market by giving a certain freedom of exchange, but with certain limitations and conditions, one of them resulting in the items in Canada, which are presently 60-percent Canadian content, going up to 80-percent Canadian content,

Secretary WIRTZ. Well, the point is sufficiently important that we ought to try to get it cleared up, and I am not sure I am competent to. But if the implication is—and I cannot believe it is—if the implication of the question is that 80 percent of the manufacture of the industry or any part of it or a substantial part of it is to be Canadian, in Canada, that is not right, and I do not believe that is the implication of what is said. Is that the question?

Senator HARTKE. Yes. But that is the answer which I am reading from this paper dated just this weekend.

Secretary WIRTZ. We are talking about so far as I know a situation which Canada today produces, what is it, some place around 5 percent?

Senator HARTKE. Four percent.

Secretary WIRTZ. Four to five percent.

Senator HARTKE. Four percent.

Secretary WIRTZ. Of the total.

Senator HARTKE. Let me point it out why it is important, not to say 4 or 5 percent. It is going to 5 percent, so let's not say 5 percent, because I think in all fairness everybody agrees it is 4 percent.

Secretary WIRTZ. Presently 4, with the prospect of moving to 5, 5½.

Senator HARTKE. Yes; that is better.

Secretary WIRTZ. If I understood the line of your questioning it seemed to substitute for those figures the 80-percent figure.

Senator HARTKE. No, no.

Secretary WIRTZ. You are talking about the Canadian content of that part of the production which presently represents 4 percent and will represent 5 to 5½ percent. I think that is what you are talking about.

Senator HARTKE. The 4 percent is the total North American market being produced in Canada today?

Secretary WIRTZ. Right.

Senator HARTKE. It is anticipated if this agreement goes into effect, as I understand it from those who have been acquainted with it, that it will go to 5 percent?

Secretary WIRTZ. That is my understanding.

Senator HARTKE. Which in itself means that a larger percentage of the market is going to be produced in Canada.

Secretary WIRTZ. Which should be weighted with the fact that Canada's present consumption is about 7 percent, but I am sorry to interrupt.

Senator HARTKE. Well, if you want to make the policy arguments, I would like to go into that, because this is the whole basis of what we are trying to do here, to establish American policy here, which I think we are doing outside the framework of all of the regular procedures. But the point is that still the big auto parts program, which at the present time must have roughly a 60-percent Canadian value added or Canadian content, is anticipated by 1968 to go up to 80 percent.

Now—you correct me if I am wrong—in effect this means there are two big pluses for Canada. This started out as a rather humiliating thing for the United States to be faced with, in my opinion, but that is all right. We were threatened with unilateral action and then we went ahead and came in with this type of program. But assuming that we forgive and forget what they did, they are going to have a larger percentage of the market and in addition a larger percentage of that market will be Canadian value added. The net result in my opinion can mean only one thing, a reduction in exports from the United States to Canada, and a reduction in jobs in the United States, unless the difference is made up by increased consumption beyond our normal growth pattern.

Secretary WIRTZ. Reduction compared with what is our question or our difference.

Senator HARTKE. Well, a reduction from where we are today, or from where we were substantially before the remission scheme was first instituted.

Secretary WIRTZ. I think that is a difference, and puts your finger right on it, Senator. The question is this difficulty of comparing with what. If it is comparing it with what the situation was before no question—

Senator HARTKE. Before when?

Secretary WIRTZ. Well, before 1961 or, as a matter of fact, during almost any period, I don't think there is any question about the fact that the Canadian position is somewhat improved as a result of a comparison with that situation.

But if the comparison—

Senator HARTKE. Mr. Secretary, just a minute. You see, we have to have a definition of terms.

Secretary WIRTZ. Yes.

Senator HARTKE. Let's do the comparison. You say the situation has improved. Where? Jobwise? Corporatewise? Consumerwise? Governmentwise in taxes? What Canadian situation has improved?

Secretary WIRTZ. Well, I am naturally thinking of it in terms of jobs, but the analysis ought to be the same depending on how you get at it.

My point is again the point of comparison in whatever terms you may choose with some other situation, and the other situation to which you refer is not quite clear to me. If the question is whether over the period of the last several years in fact Canadian production and employment has improved it has and we have the specific figures to show that and similarly of U.S. production and U.S. employment, and in percentage terms Canada has gone up higher than the United States. In absolute terms, the United States has gone up higher than has Canada.

The other comparison is with the situation as far as the future is concerned, the present and future are concerned, with or without the enactment of the particular legislation which we have before us.

Now, on that, there is some element of conjecture, but, again, and I hesitate to repeat, this seems to me the right comparison and one by which it is quite clear that there will be an advantage to both the United States and Canada on this basis compared with any other.

Senator HARTKE. Will the Senator yield for a further point here?

Senator GORE. Yes.

Senator HARTKE. I am asking questions which I know deal with a variety of different fields of responsibility inside the administrative part of the Government. But I am sure the Secretary is aware that the Kennedy round is going on at the present time, dealing with tariffs and trade negotiations.

Are you aware of that?

Secretary WIRTZ. Yes; Mr. Chairman, Senator Hartke, I am aware of it.

Senator HARTKE. Are you aware of the fact that they are discussing automobiles there, what to do about tariffs in relationships between all these countries in the multilateral agreement?

Secretary WIRTZ. I have no personal knowledge of that, but I have no difficulty in accepting it for purposes of this discussion.

Senator HARTKE. Let me say to you they are. This is a bilateral agreement in direct contradiction to the stated policy not alone of us but of every other nation in the world. In other words, this policy is running against the tide and is the very type of operation which is deplored by all those people who are attempting to arrange multilateral agreements. As the Senator from Tennessee has brought out before, we are taking a segment of the industry of the United States, and a segment of Canada's industry, and we are giving it special treatment in an area in which we happen to be in a very good position. But all the bargaining at Geneva on the Kennedy Round is in relation to all of the goods which are produced in the United States and the rest of the countries in the world in an effort to come to an understanding so we can have a general lessening of trade barriers.

Now, as I stated here the other day, I talked to the British about this, and they are very apprehensive about the whole policy that is being proposed here because they think it makes it much more difficult to come to multilateral agreements if you are going to take segments of the situation to deal with bilaterally.

Can you not understand that?

Secretary WIRTZ. I follow every word you said.

Senator HARTKE. All right.

This is why chaos is coming from this type of an agreement, because a lot of people did not understand clearly exactly what it is going to lead to ultimately. And, frankly, with all due respect to the all the admonitions to the contrary, I can think of no alignments in any industrial field which are going to occasion the major adjustments and dislocation that placing this agreement into effect would do. It appears to me that the one who is going to pay the bill for most of this is the American taxpayer. He is going to have to deal with these businesses, and with these laborers—at least on our side—who are thrown out of work, and there is no assurance that there is going to be any continuation of this arrangement after 1968.

The bill itself and the agreements all carry a limit of the date of 1968. I know of no one today who does not feel that this agreement will, during that interim period at least, increase the comparative production of automobiles and automobile parts in Canada with a corresponding loss during that period, generally speaking, of the same production of automobiles and automobile parts in the United States.

Do you understand that?

Secretary WIRTZ. I understand it, Senator, but I don't agree with what you said. If I express a contrary view it will take time which is ill spent because everything to the contrary has been stated by the Secretary of Commerce and the Under Secretary of State. I hope you won't think that the Secretary of Labor is recommending a course of action that is going to mean fewer jobs for Americans. So I am glad to respond to your questions, each one in terms of complete understanding of what you have said, but you will have to respect the good faith and the reasonable minimum intelligence with which I have advanced every position, and I cannot by my answers subscribe to more than the following of the argument that is being made, and I am sorry.

Senator HARTKE. I think you have the intelligence. I am not going to question that. Far more than intelligence on this matter—I still think the problem arises as to how you are going to deal with this

Canadian value added proposition. Until we can bring it out into the open and have an examination of exactly what its effects are going to be, and it has not been done to this moment, this committee has nothing to indicate that there are going to be 25,000 or 50,000 jobs lost if we do not accept the agreement, other than your statement as to this potential loss. If this agreement does not go into effect, I don't know where they are going to be lost. I don't see any place yet.

On the other hand, I don't think we have had any indication from the automobile manufacturers or anyone else as to how this agreement is going to increase employment, and where it is going to increase employment here except in general terms, but I am willing to accept that on faith.

If I didn't, I would say that these statements coming out of other areas which indicate that they expect to pick up the difference, would indicate that somebody is going to have to have a loss.

Secretary WIRTZ. I think probably there is no basic difference between us, if we could just identify the one difference in approach that we take to it, and I should like to take just half a minute to attempt it.

If the question, Senator Hartke, is whether there will be a larger percentage increase or improvement in the Canadian position during the next 3 years in terms of production, in terms of jobs, or whether there will be a larger increase in these various factors in the U.S. position during the next 3 years, I think making that comparison there is no question but that the percentage increase on the Canadian side will be larger, and I think that is what you are saying, and I would have no difficulty in subscribing to that completely, as a matter of fact. Then if my answers and testimony seem to pursue a different line, it is only because I am making a different comparison, either with the past, but we have crossed that, but rather with the future as to what the situation would be both on the Canadian side and on the U.S. side, whether we do or not see the enactment of H.R. 9042. That is the comparison I tried to make and I think it is a harder one than the one you make, and I simply want to say in the interests both of time and trying to be as fairminded as I can that if the question behind your questions, if the point is that there will be a larger percentage improvement on the Canadian side of this industry within the next 3 years and there will be a percentage improvement on the U.S. side, I don't think there is any question about it. It will be on the Canadian side.

Senator GORE. Mr. Secretary, that is what I have been trying to get you to say for a couple of hours.

Secretary WIRTZ. Maybe it was lunch that helped me. It is right.

Senator GORE. Did you have lunch on the Hill? I am afraid our diet is not quite so good. Let's say that these agreements will result in a larger increase in Canada than in the United States proportionately, and I agree. Now let's get down to specifics.

Secretary WIRTZ. On a percentage basis.

Senator GORE. Beg pardon?

Secretary WIRTZ. On a percentage basis.

Senator GORE. All right; let's get down to that on a percentage basis and I want to reduce that in numbers.

How many people are employed in the automotive industry in North America?

Secretary WIRTZ. Well, it depends on what groupings we take. That information is set out in the statement which accompanies my testimony, but instead of going into the detail of that, I think the most reliable figures to use are those—we carry a general figure for auto employment in Canada and the United States—their comparable figures. In 1964 there were about 771,000 employees in the United States and about 65,000 in Canada.

Now, a fuller detail of this, Senator Gore, is set out in tables 1 and 4 of the statement which accompanied my testimony.

Senator GORE. 771,000?

Secretary WIRTZ. That is right—in 1964.

Senator GORE. If you do a simple arithmetic with me, what is 4 percent of that?

Secretary WIRTZ. Four percent of 771,000, about 3,500, I think—3,100, approximately.

Senator GORE. I think you need another decimal.

Secretary WIRTZ. 31,000.

Senator LONG. 31,000.

Secretary WIRTZ. 30,840, I get.

Senator GORE. Now, you say as a result of these agreements it is expected that the Canadian share will go to 4½ percent—no, 5½ percent.

Secretary WIRTZ. Five to five and a-half.

Senator GORE. All right. Now, would you let me know, I will calculate it along with you, in order that we will minimize differences, what 5½ percent of that will be?

Secretary WIRTZ. That is 771,000, taking 5½ percent?

Senator GORE. Yes.

Secretary WIRTZ. In round terms, 42,000.

Senator GORE. Then if you subtract 31,000 from 42,000, it seems to me the conclusion is equally inescapable that these agreements are going to mean 11,000 fewer jobs in the United States and 11,000 more jobs in Canada.

Secretary WIRTZ. It leaves out the whole point of the program.

Senator GORE. The whole point of the program you have just said is to increase the percentage of production in Canada and that is what I am talking about.

Secretary WIRTZ. If I have said, Mr. Chairman, that the whole point of the agreement is to increase production in Canada, I will request that the record be corrected to reduce or to remove an insanity—

Senator LONG. You didn't say that.

Senator GORE. I didn't get that.

Secretary WIRTZ. If I have, as you say, said that on the record I request it be removed from the record to remove an obvious insanity.

Senator GORE. Maybe what you did understand me to say.

Secretary WIRTZ. That I had a statement that the point of the agreement was to increase production in Canada. I think I can clear up the little difference we have on figures fairly easily. The point of the agreement, as I understand it, is to increase production and rationalization of the whole industry in both the United States and in Canada. The difficulty I would have with a simple arithmetic is involved in the computation you suggest, is this, Senator Gore, that the purpose of the agreement, among others, is as in any free trade situation, to create

the largest possible degree of efficient production and one of the very real consequences of this bill will be an increase in productivity. We have some fairly interesting figures on what has happened to productivity in Canada, and in the United States. I think it would be a quite necessary assumption that as Canada moves from 4 to 5 or 5½ percent of the production on the rationalized basis of the industry which you will get from this agreement production per man-hour would go up quite substantially. It has been a good deal lower in the United States—I mean in Canada than it has in the United States in a large degree. So that while I would expect to see some increase in employment in terms of jobs in Canada during the next 3 years, I would not expect to see it increased in the ratio of 4 to 5½ percent. And I think the difference would be substantially less than that.

Senator GORE. You anticipate then that the employment will not go up in proportion to the productive capacity?

Secretary WIRTZ. That is correct.

Senator GORE. Well, there might be some lag in that regard. But you again refer to it as a free trade situation.

Do you still want to refer to it in that manner?

Secretary WIRTZ. If the suggestion in the record is that I would identify this as a completely free trade situation, then I would want to correct it, if that is the suggestion. But I would want to identify it again as a very substantial approach toward a free trade situation, but not a complete approach, if you will.

Senator GORE. Now, in case, in the event that the Canadian production is increased by 1½ percent, this would necessarily mean that U.S. production vis-a-vis the United States and Canada would be reduced by 1½ percent.

Secretary WIRTZ. The percentage parts, the percentages themselves would be. The application of those different percentages to a larger part would well, and probably could well, and probably would mean an increase on both sides. But if the question is confined just to the comparative percentages, the answer would be affirmative.

Senator GORE. Well, thank you. We are arriving at an understanding. I don't know why it takes so long. Of course the automobile market in North America, let me repeat, is in my opinion going to increase with or without the benefit or the burden, as the case may be, of this agreement. What we are talking about is the share of the respective countries in that production, in that increased production, and I think now we have boiled it down to concrete terms. As a result of these agreements, if implemented, it is anticipated that by 1968 Canadian production, percentage of the North American production, will increase from 4 to 5½ percent or thereabouts, I am not trying to be exact, and, therefore, there being only 100 percent, that means that the United States, the share produced in the United States will be reduced from 96 percent to 94½ percent.

Do you find any difficulty or disagreement with those statistics?

Secretary WIRTZ. No disagreement. The difficulty is that they only state a part of the situation. But the comparison which you are making which I would urge is only part of the proper comparison seems to me complete, that the—I don't mean complete, it seems to me correct. That taking simply the percentages of the total there will be a change in those percentages if you compare today with 1968.

Senator GORE. What would you expect the total employment, comparable statistics to the 771,000 which you gave as of now—what would you expect that employment to be by the end of 1968 or the 1968 model year?

Secretary WIRTZ. The question, again, is what I would expect the change to be?

Senator GORE. Total employment.

Secretary WIRTZ. I don't know how to estimate that. We have had an extremely good year. I can project the developments over the past several years, and assume that they will continue. I am not in a position to do a very good projection job in the United States, and incidentally those figures we have taken was a percentage of the U.S. employment. I rather think on a complete statistical basis we might want to take some other base, but that is a side detour. Since 1961 employment in Canada has increased from 46,000 to 65,000. That is an increase of 19,000. It is also an increase of 41 percent, a large percentage increase.

In the United States over the same 3-year period, employment has increased from 632,000 to 771,000, that is an increase of 140,000; in percentage terms because of a different base it is a 22-percent increase.

If you take a 1958 base instead of 1961 you have got a somewhat narrower difference.

But this is all preliminary to saying that as far as projecting the future is concerned, when it necessarily takes account of changes in productivity as well as changes in the location of various parts of the market, I am trying to think as I have given the projection whether I have a firm basis for the projection; I don't think I have, Senator. It will depend more on the economic health of the two countries. I suppose I would be inclined to project on somewhat the same basis with a faster growth rate in percentage terms in the Canadian figure than in the U.S. figure on jobs.

Senator GORE. Well, would it be reasonable to assume that the 771,000 would by 1968 reach 1 million?

Secretary WIRTZ. I would doubt whether there would be that increase. It would be a much larger increase than we have had. We have had a 140,000 increase over the past 3 years in automobile employment.

Your question would be whether in the next 3 years it could go up 230,000. I don't know enough about it. It is a pretty complicated projection.

Senator GORE. I understand we are speculating here.

Secretary WIRTZ. Sure.

Senator GORE. I realize that.

I don't want to pin you to any answer. I want to clarify this issue, and I think we have made some progress in the last few minutes.

Let's take a hundred thousand off, would it be reasonable to assume that by 1968, the end of 1968, the total employment would be 900,000?

Secretary WIRTZ. With all respectful candor, I hesitate to make that kind of projection.

Senator GORE. I withdraw it.

Secretary WIRTZ. Let's see, if we could assume present productivity and assume the projection of the present economic growth rate, I should think it would come out some place in that area and that

would be closer surely to my own guessing than the first figure, but I just don't know enough about it, I mean no one can know enough about the economic conditions to make a definite projection.

Senator GORE. I am not asking you to make a calculation on this figure, but if the United States suffered a comparable loss of total employment of $1\frac{1}{2}$ percent, then the loss of potential jobs in the United States would be more than the 11,000 which we calculated on a percentage basis of 771,000. If the Canadian increase is from 4 percent to $5\frac{1}{2}$ percent, my mental arithmetic indicates that that would be a $37\frac{1}{2}$ -percent increase in Canadian production from 1965 to 1968, and assuming that employment is commensurate with increased production, that would mean a $37\frac{1}{2}$ -percent increase in Canadian employment, and a corresponding decrease in the total share vis-a-vis the United States and Canada in the United States.

It seems to me now the issue is—this makes the issue so far as I am concerned pretty clear. You make a good case that this is going to bring more prosperity to the automotive industry of North America, and that the total industry is going to profit and benefit. But the growth will be bigger as a result of approval of this agreement and the discussion, and implementation of this agreement than would be otherwise. That is the case which you make.

But the case that Senator Hartke, it seemed to me, made pretty well, which I have been laboring to make, is that we need not give up jobs and business in the United States in order for the automobile industry of North America to prosper. There is no necessity that this country be a pushover for every neighbor who wants to make a raid on its successful production and trade, and this, it seems to me, is what we have done.

Perhaps you would be interested in—

Secretary WIRTZ. Could I just—so in the form of your statement the record not seem to commit me to that part of it, let me make clear two things. I have tried to be as helpful as I can on a percentage approach, on a comparison of the two percentages on what is going to happen. Now, you just can't live on a percentage—I am talking about jobs, because you can live on jobs, and I am urging very strongly that there will be more jobs under the proposed arrangements than there would be in the absence of the proposed arrangements. It is simply a matter of preferring to have—I would rather have 50 percent of a pie of 100, than I would have 60 percent of a pie of 75, just to make the point in figures that have no relevance to the particular case.

So my point is that there are going to be more jobs regardless of comparative percentages. There are going to be more jobs here than there would otherwise be, but subject to that notation I apologize for the interruption.

Senator HARTKE. Mr. Secretary, is it possible for you to give us the statistical data on the increase in automobile manufacturing jobs, say, up to June of this year over January?

Secretary WIRTZ. The increase?

Senator HARTKE. Yes.

Secretary WIRTZ. It is for the first 6 months of this year increase in jobs in the United States and in Canada?

Senator HARTKE. No; I have them in Canada.

Secretary WIRTZ. All right.

Well, we will have to supply that for the record.

(The information requested was subsequently furnished by Secretary Wirtz on p. 362.)

Senator HARTKE. I think this is important, Mr. Secretary. Let me point out something—can I have the attention of the Chair—I think we are pointing toward a fact here which is very significant. The Canadian people contend they have had an increase of 11,000 jobs since the first of this year as a result of the action of the agreement to date. Now proportionately speaking, if that is true, I think it is very simple arithmetic for us to determine—do you have it?

Secretary WIRTZ. No; we will get it.

Senator HARTKE. It is very simple arithmetic to determine whether or not we have had a corresponding increase of jobs in the United States during this same period of time. In view of the fact that these are ultimately going to be very important factors in the committee's making up its mind as to exactly where we are going, we can from this comparison make some assessment as to whether this so-called potential of increase in jobs on both sides is going to really occur. Let me point up something further, Mr. Chairman, which I think is very important.

It is important some place along the line for somebody in the administrative portion of Government to determine what is happening or what is potentially happening in such fields as those mentioned in the Financial Post—automobile wheels, stampings, headlights, filters, springs—and I think that the Senator from Tennessee has already indicated what is happening in springs, castings, connecting rods, forgings, power steering assemblies, radiators, bumpers, drills, springs again, axles, transmission casings, brake assemblies, ball bearings, radiators, bumpers, carburetor parts, springs again, and automobile carpet. These are all in the automobile parts expansion program which has been announced in Canada since this agreement was first effected, and I am interested in what is going to happen to these businesses in the United States. We have a telegram—

Senator GORE. I read a telegram concerning something which has already happened; 350 men have been notified they are out of jobs in Detroit—a spring manufacturer. It is all right to talk—

Senator LONG. Is that a unilateral statement by the union or has management notified they are out of jobs?

Senator GORE. I placed in the Congressional Record after we adjourned here a letter from the management of the company to their employees—I placed in the record a letter from one of the employees who received a letter and sent it to me. I placed in the record a telegram from the president of the local union, which unanimously asked for the rejection of this agreement. It sounds good to fall back upon a generality, glowing and beautiful, that we get along with all of our neighbors, that we are going to grow in North America. Who is going to grow? The sacrificial lamb in this deal is the parts manufacturer in the United States, and ultimately the consumers in the United States of replacement parts, because if you deny to the parts manufacturers the prime contract with the manufacturing concern, then he must sell his replacement parts at a higher price.

So 5, 7 years from now, this will mean a greatly increased price of replacement parts in the United States, in my opinion.

The parts manufacturers are the ones being hurt here. The beneficiaries are the automobile concerns and their subsidiaries and their employees in Canada, and the only defense we have of it is generalities that this is going to make greater prosperity for the automotive industry in North America.

Senator HARTKE. Mr. Chairman—and this is not necessarily relating to the Secretary's statement—but the Tariff Commission has asked to testify here this afternoon.

Senator LONG. They will testify if we ever get through hearing questions and answers directed toward the Secretary of Labor. They are up here.

Senator HARTKE. Mr. Chairman, I want to make a statement in regard to the statement made by the chairman. A question was asked of me by a reporter this morning as to whether or not we were stalling this matter out. I have been here most of the time, I think as much as any other member of the committee, and I do not know the occasion for asking such a question. But I can assure the press if they have any such information that they would like to submit for the record which heretofore has not been published, I would be glad to have it. One of the things which I think this record should certainly have is the general letters of undertaking by other Canadian motor vehicle producers, which to this date have not been published nor released and which the Tariff Commission is going to state when it does testify that they have not been notified of their contents.

I think that this Congress, if it is going to act upon this matter, certainly is entitled to at least have the facts before it in relation to what is going on.

I think we are entitled to know what is happening in these industries in employment. I think we are entitled to know, and I think the Secretary can inform us as to whether or not there has been a corresponding loss of jobs in the United States with the resulting Canadian increase percentagewise. I should think the Senator from Louisiana, who is interested in this matter, would be as much interested in these facts as the Senator from Tennessee, as the Senator from Indiana.

Senator LONG. How do you know what the man is going to testify when you have not heard him? When you get through asking questions of this witness we will bring him up and see what he knows.

Senator HARTKE. The chairman is well acquainted with the rules of the committee requiring the submission in advance of statements, and I have the testimony of the Tariff Commission dated September 16, 1965.

The Tariff Commission's statement which I have is going to indicate on these letters that they say, "The letters of undertaking written by the Big Three in Canada and American Motors (Canada) were submitted to the Committee on Ways and Means. However, as far as the Tariff Commission is aware, copies of the letters of undertaking by the other Canadian motor vehicle producers have not been published. Further, it would appear from the texts of the four published letters that such letters "do not fully" and I emphasize that, "do not fully express the present collateral commitments and that such commitments might be modified—or new commitments made—in the future."

I think this is rather revealing information. I do not see how the Secretary of Labor is in a position to competently testify as to the loss of 25,000 to 50,000 jobs and correspondingly to increase in employment in the United States, in view of the fact that even some of the letters which are supposed to be in front of the public to make such a determination are not even available to the public and certainly not to this committee at this time.

Senator GORE. I would like to read to the Senator from what the Tariff Commission has said about these private agreements in its testimony which is a report to the Ways and Means Committee:

Each producer has agreed that to the extent that its annual sales of motor vehicles in Canada increase above those in the base year it will increase the Canadian value added of its Canadian production by an agreed percentage. While the percentage may vary from class to class of motor vehicle or possibly from producer to producer, it apparently averages 58 percent for all Canadian producers.

Roy M. Todgham, president of Chrysler Canadian, Ltd., has announced it is 60 percent for his company. In addition to any increased Canadian output of motor vehicles and parts offered by the above commitment, each producer has agreed to increase his annual production of motor vehicles and parts presumably Canadian value added by a stated amount by the 1968 model year, the amounts for 11 companies aggregating \$241 million.

I remind you that that is on top of the other.

Senator HARTKE. That is on top of market growth?

Senator GORE. So we do have, as a matter of fact, the Secretary of Labor advocates the passage, the approval, of an agreement which will, in fact, and in design as is stated, disproportionately increase employment in Canada to the disproportionate unemployment or lack of employment in the United States.

This can't be otherwise. If you increase from 4 to 5½ percent in Canada, and there is 100 percent in this apple you talk about, or pie, then this decreases from 96 to 94½ in the United States. It is that simple, and yet the Secretary of Labor advocates this on the basis that somehow or other it is going to increase the productivity of the automotive industry in North America. Who gets the increased productivity, who benefits by it and who gets jobs from such increase? That is a matter which it seems to me that those of us in the executive and legislative branch should be concerned with.

Senator HARTKE. If the Senator will yield, let me say to the Secretary of Labor that Kelsey Wheel Co. has started export of Canadian-made wheels from its Windsor, Canada, plant. I would imagine if they are made in Windsor, they are going right across the river to Detroit, in that area. Do we know what has happened in the question of wheels? Does anyone? Can anyone in the Government tell us whether this has had any impact on jobs in the production of wheels?

Secretary WIRTZ. During what period?

Senator HARTKE. If I were working at a wheel manufacturing plant, I would be concerned as to whether I was going to have a job tomorrow morning or not, and I think this is a matter that concerns the Secretary; isn't that right?

Secretary WIRTZ. That would be a matter of concern; yes.

Senator LONG. Mr. Secretary, would you see if you could provide for the record what has happened with all these items the Senator has mentioned? If your Department can get it, would you make it available for the record of this committee?

Secretary WIRTZ. I will, to the fullest possible extent. The overall figures which he requests for the employment during the last 6 months can be made available in a matter of minutes.

I will also try to get for the record and add to the record whatever information there is with respect to employment in those items.

Senator LONG. All these different items.

Secretary WIRTZ. Yes, sir.

(The information referred to follows:)

DISTRIBUTION OF THE EMPLOYMENT IN SELECTED MOTOR VEHICLE METALWORKING OPERATIONS

Because of the considerable variety of automotive parts products within the industry, it is not possible to provide data on employment involved in the manufacture of component products, such as springs, carburetors, etc.

The best information we have, based on the 1938 Census of Manufactures, indicates a distribution of 45 percent (188,000) of the production workers in motor vehicles and parts among selected metalworking operations as follows:

	Percent
Ferrous foundry-----	4
Forging-----	1
Electroplating-----	2
Heat treating and annealing-----	2
Automotive screw machine department-----	2
Machine shop-----	36
Tool and die shop-----	14
Foundry pattern shop-----	1
Plate or structural fabrication-----	2
Stamping, blanking, and forming-----	29
Painting, lacquering, and enameling-----	7

Table 2 attached to my testimony presents the employment involved in making automotive equipment in those industries whose major products are not for the automotive industry.

Senator GORE. I would like to know the condition of employment first in the United States in the auto supply industry. What percentage of the employees of the automobile parts manufacturers in the United States are members of organized labor?

Secretary WIRTZ. All right, I will try to find that for the record. That will be necessarily an estimate.

Senator GORE. That is all I am asking. I wonder if you have it offhand.

Secretary WIRTZ. I do not have it offhand. For purposes of advancing the discussion, I will suggest a figure of between 75 and 85 percent, and will then correct that figure for the record if it proves to be wrong.

Senator GORE. Thank you. You are very cooperative. I had no fixed estimate. I would have thought it was nearer 60 percent.

Secretary WIRTZ. That could be right, but I think it is higher than 60 percent.

Senator GORE. I will accept it. Let's assume for the sake of discussion it is 75.

Secretary WIRTZ. Right.

Senator GORE. What percentage then are members of the UAW?

Secretary WIRTZ. Well, there are four unions which represent the whole of that group, and again just for purposes of discussion I would guess that of the total who are represented by a union in this particular industry, again 75 percent approximately of the represented group.

would be represented by the UAW. The remainder distributed among three other unions.

Senator GORE. What are the other unions?

Secretary WIRTZ. The IBEW, the Allied Workers—

Senator GORE. Machinists?

Secretary WIRTZ. And the Machinists. Allied Industrial Workers is the fourth group. The Machinists, IBEW, and the Allied Industrial Workers. I said the IBEW, I would have to check that. I expect it is IUEW.

Senator HARTKE. Mr. Chairman, can I interrupt a moment? I don't have anything further of the Secretary of Labor, but I do want to question the Tariff Commission. But I am going to have to ask to be excused.

Senator LONG. Senator, I will stay here as long as you want to, if you are asking the questions. But we have asked this man to come back because Senators wanted to ask him questions who weren't here before and in fact I know of no intention to call additional meetings. If the Senator will prepare the questions, I will ask him the questions or submit the questions for him—any questions he wants.

Senator HARTKE. I want to make a request. If it is denied, it is all right.

Senator LONG. Would the Senator be willing to let the Tariff Commission testify so Senator Hartke can ask the questions, and have the Secretary of Labor stand by?

Senator HARTKE. I think you are going to have from the Tariff Commission testimony quite at length completely at odds to everything we have heard so far.

Senator LONG. If the Senator wants to hear him, this is the only reason we will hear him because we sat around 25 minutes waiting for the Senator and when he arrived he asked interrogatories until about 12 o'clock when I had to leave, and sometime thereafter, and the Senator could have asked anything he wanted to for the next hour. The Secretary waited 15 minutes to answer questions of the Senators and it is now 3:30 and if the Senator didn't get to ask the questions it is because the Secretary of Labor has been on the stand. I am sure the Secretary of Labor will be willing to step aside and let the Senator ask questions of the Tariff Commission. We were supposed to have 2 days of hearings. Now we have had 4.

Senator GORE. Mr. Chairman, I respectfully suggest that the Senator from Indiana ought not be berated because he has an engagement in Indiana tonight because he desires to ask questions on this issue which affects the employment of thousands of people in the State he has the honor to represent.

Senator LONG. I am trying to accommodate him.

Senator GORE. It is I who have been questioning the Secretary of Labor mostly. I am asking him now on percentage of employment. It seems to me that there are very vital issues concerning this. This is a bigger question than the Senator from Louisiana may think it is. But aside from that, I don't think that the Senator from Indiana deserves to be berated because he wishes to ask questions on this important—that is important to the people that he represents.

Senator LONG. If I berated the Senator, I want to apologize to the Senator, but if he wishes to ask the Tariff Commission to answer some questions I want them to answer it. But if the Senator can't be here, he has to go back to Indiana, I would suggest we let the Secretary step aside for the moment and let the Tariff Commission come up here so they can ask questions.

Senator HARTKE. I want to say I am not going to be able to stay. They don't hold airplanes for me. I would like to point out on page 4 of the Tariff Commission's report, it says:

About 6 weeks after the Canadian tariff rebate plan was expanded, Studebaker announced that it was transferring its vehicle assembly operations from South Bend, Ind., to Hamilton, Ontario. Referring to the expanded plan, a spokesman for the company stated that the "economic climate in Canada thus established and, of course, the timing, were tailor-made for our move to Canada."

There are other industries, Modine Manufacturing Co. of Racine which also is in Indiana and which also has some employment in Kentucky; other manufacturers, Century Foundry of St. Louis; Iron City Spring, Pittsburgh; Muskegon Piston Ring Co.; Service Co., Indianapolis. All these people are concerned about these matters, but if this matter is not going to be completely and thoroughly discussed in committee hearings, it will have to be thoroughly and completely discussed on the floor of the Senate where there will be no question—

Senator LONG. Senator, if I do say it, you are talking to an experienced filibusterer. I think I have had as much experience as the Senator has.

Senator HARTKE. Let me make a statement. If the Senator thinks I am filibustering I will waive my right to any further questions upon this agreement at this time and so state. I want it clearly understood that if no one else is interested in these people's jobs I am. I am interested in looking out for these people and I am not interested in providing them only 65 percent of their wage. I am interested in trying to look out for them ahead of time.

If the chairman wants to take an arbitrary position which he can—he certainly can take this position, and I would be willing to waive any right to any further questions.

Senator LONG. May I say, if the Senator will show me the courtesy of listening to me for a moment, the Secretary of Labor is here today because the Senator from Indiana insisted that the Secretary of Labor be here in committee.

Senator HARTKE. I have no further questions of the Secretary.

Senator LONG. If the Senator wants to ask the Tariff Commission a question or a number of questions, I am prepared to ask the Tariff Commission to testify and I will do everything I can to help the Senator get the information he wants to have.

But this is late in this session; this is a very important measure which has already passed the House, and I hope the Senator will stay around long enough to ask these questions, and find out what he wants to know or else give us a list of what he would like to have and we will see if we cannot provide him with that information.

But now as far as calling the committee back time and again because the Senator can't be here—I have never asked that this committee not act or that the committee not close its hearings or that it not get on with its business because this Senator couldn't be there, and I

would hope that the Senator would ask the questions he wants to ask of the Tariff Commission and I will move that the Secretary of Labor stand aside and put the Tariff Commission on now so the Senator can ask these questions.

Senator HARTKE. I think according to my understanding from the session of Congress we are going to be here awhile, and I am certain we will have enough time to ask all of these questions.

Senator GORE. Well, Mr. Chairman, the Senator from Indiana has been here both morning and afternoon. If he has an engagement in Indiana tonight, I think that is part of his responsibility.

If the chairman is disposed to deny him the opportunity to question the Tariff Commission, I shall ask to submit the questions to the committee in executive session.

Senator LONG. May I say to the Senator, I thought I was trying to offer the Senator a chance to ask the questions.

Senator GORE. He has a plane to catch and catch now.

Senator LONG. Well, the Senator had been working with the Senator from Tennessee asking all these questions of the Secretary of Labor. Why didn't they call the Tariff Commission before us earlier to ask these questions? If the Senator wants to take that attitude, of course he can.

Senator GORE. It is not the Senator from Tennessee taking the unusual attitude. It is the Senator from Louisiana who is being arbitrary as acting chairman of the committee.

Senator LONG. All I asked to do was if the Senator wanted to ask the questions of the Tariff Commission, the Tariff Commission could sit there and answer the questions of the Senator.

Senator GORE. That is all he asked, in regular session.

Senator HARTKE. I am not too disturbed, I am not too worried. I have no further questions of the Secretary of Labor. I cannot stay, and I understand we will probably not be given an opportunity to question the others, which, as far as I am concerned, will be very disappointing, but—

Senator LONG. Senator, let me say this, while it is fine to hold hearing and build up a tremendous record, if the Senator can't be here, I am sure he knows he can get anybody he wants into his office. They haven't turned me down and I don't think I have turned him down in providing any information he wants. Frankly, when I have opposed some things, I have done this. I opposed the nomination of Secretary Dillon and I am not particularly proud of it, but I thought at that time it was the thing to do, and I asked Bill Fulbright to reopen the hearings so I could go into the Secretary's qualifications and his background and experience in much greater detail and that was not done. However the chairman pointed out that I should invite the Secretary by my office, which I did, and went into a detailed discussion with him, of everything in which I was interested. As far as the committee is concerned, when Senators want their questions answered I think they ought to be here to ask them.

Senator GORE. Well, Mr. Chairman, I think this calls for an observation.

A basic purpose of public hearings on legislation is information to the American people. Part of the purpose is for the information of Senators, but a very vital function is public education. Here is an

issue on which no one was expressing, so far as I heard in the Senate, was expressing concern or disagreement until these hearings started. The hearings have performed a vital function in informing Senators, and also in informing the public. I heard Senator Symington take the floor of the Senate a few moments ago and expressed concern about this pending agreement. I daresay he would not have done so except for the information that has been produced in this hearing.

I know of several Senators who are now opposed to this agreement who expressed no sentiment before these hearings.

That is why I said earlier today these hearings have generated opposition. There may be some who support it who did not before these hearings. I know of none. But conversely, let me repeat, I know of many who have expressed opposition as a result of the public information that has been generated by these hearings. It doesn't satisfy this function of democracy merely that a Member of the Senate invite a Government agency into his private office—to have a cup of coffee and a colloquy about the issues. Here the press gathers and they take the news to the American people. This is a part, a very vital part, of the legislative function. This is the first opportunity I have had to question the Secretary of Labor. I have been asked to yield several times by the Senator from Indiana and the Senator from Louisiana. I had intended to proceed upon one other question and that is on the nature of employment in the automotive industry, and then I was going to the question of wage rates, both of which, it seems to me, are vital and important to this issue. I hope also to ask some questions of the Tariff Commission whose report I have read but which leaves a good many questions unanswered.

But if the committee wishes to close hearings without the Tariff Commission testifying, the committee has the power to do so, and I shall ask them, however, to make that a matter of formal action. I am prepared to proceed to 4 o'clock, and I, too, although I do not have to catch a plane, have constituents meeting me in my office at 4 o'clock.

Senator LONG. I will be glad to come back to accommodate the Senator.

Senator GORE. Thank you.

Mr. Secretary, what would be your estimate, with the advice of your associates here in the committee room, as to the percentage of employment of the Canadian subsidiaries of the American "Big Four" automobile concerns which are members of organized labor?

Secretary WIRTZ. I would answer that, Senator Gore, in terms of an approximation of 90 percent, correcting it for the record of subsequent advice indicates a different answer.

Senator GORE. Are most of those—

Secretary WIRTZ. This would be the production workers, I assume.

Senator GORE. Are most of those union memberships held in the UAW?

Secretary WIRTZ. Yes, sir.

Senator GORE. So, percentagewise, though individuals might be hurt in one instance and helped in another, an increase in parts manufactured by subsidiaries, Canadian subsidiaries of the U.S. automobile concerns and a corresponding decrease in the United States, would not adversely affect the membership in the UAW, would it?

Secretary WIRTZ. I hesitate to answer the question except in terms of the facts which you set out which included some implications about the nature of union representation which I cannot subscribe to, so I would simply have to rest on the basis of the question as I understand it to be that 90 percent of the employees involved in the Canadian subsidiaries are union members. I do not believe the implication of your question follows.

Senator GORE. Well, Mr. Secretary, what implications did you understand by the question? I had not stated any and had not intended any.

Secretary WIRTZ. Well, then in my qualification of my answer, I would have removed—let the answer stand as it was. My point, Senator, is that the United Automobile Workers certainly, like the Secretary of Labor, would not be affected in their attitude toward the issue before us by any disregard of the interests of every single worker as an individual. I just would not deal casually with the dislocation of any particular worker even though I might feel that somebody else had a job as a consequence of it, and that was the point of concern that I felt in hesitating about the answer to your question.

Senator GORE. Well, thank you. I am sure all members of organized labor would subscribe to your statement, and I do not think that union leadership was casual or cold. But a substitution for a U.S. parts manufacturer of Canadian subsidiaries of American concerns whose employees are, for the sake of discussion, 90 percent organized, and a corresponding decrease in production in the United States by employees who are 75 to 80 percent union affiliates split among four unions, would not in any way diminish the total UAW membership.

I ask that or state that as a simple matter of arithmetic without implying that the UAW position had been taken on the basis of that.

Secretary WIRTZ. The point is, as long as there is an arithmetical point, I have no difficulty with it.

Senator GORE. Now, going to the question of wages, are there significant differences in the wage rate paid in the various provinces in Canada?

Secretary WIRTZ. As between the provinces?

Senator GORE. Yes.

Secretary WIRTZ. I do not have any information that would suggest that difference, but we would be glad to check the record to see whether our information, which is on a Canadian basis, would show any marked differences between the provinces.

Senator GORE. Well, in this instance I would ask you to submit it for the record.

(The information referred to follows:)

TABLE 1.—United States and Canada: Average hourly earnings of production workers in all manufacturing and in motor vehicle and equipment industries, selected months, 1963-65

	Average hourly earnings		
	April 1963	October 1963	May 1965
United States (in U.S. dollars):			
All manufacturing.....	2.37	2.39	2.61
Motor vehicles and equipment.....	3.03	3.19	3.32
Motor vehicles.....	3.11	3.34	3.41
Passenger car bodies.....	3.19	3.35	3.45
Truck and bus bodies.....	2.57	2.55	2.71
Motor vehicle parts and accessories.....	3.01	3.11	3.31
Canada (in Canadian dollars):			
All manufacturing.....	1.95	1.96	2.11
Motor vehicles.....	2.62	2.62	2.85
Motor vehicle parts and accessories.....	2.24	2.24	2.58

NOTE.—The par value for the Canadian dollar, established in May 1962, is 1.06108 Canadian dollars per U.S. dollar.

Sources: "Employment and Earnings for the United States, 1900-44," Bureau of Labor Statistics, U.S. Department of Labor, December 1964; "Employment and Earnings," August 1965, Bureau of Labor Statistics, U.S. Department of Labor; The Labour Gazette, selected issues, 1964, official journal of the Department of Labor, Canada; "Man-Hours and Hourly Earnings," May 1965, Dominion Bureau of Statistics, Department of Labour, Canada.

Table 2.—United States and Canada. Average hourly earnings or wage rates in the motor vehicle and motor vehicle parts and accessories industries, selected areas and occupations, 1963

Occupation	United States—Average hourly earnings in U.S. dollars, April 1963—		Canada						
			Average wage rate per hour, time workers, in Canadian dollars, October 1963—				Average straight-time earnings per hour, incentive workers, in Canadian dollars, Oct. 1, 1963—		
	Michigan	Detroit	Quebec Province	Montreal	Ontario	Toronto	British Columbia	Ontario	Toronto
Motor vehicles:									
Assemblers, line and bench	2.73		1.48		2.38		2.43		
Inspectors, general production	2.78				2.40				
Tool and die makers	2.62				2.88				
Laborers, material handling	2.66		1.06		2.24				
Machine-tool operators, production, other	2.76								
Punch-press operators	2.76								
Machine operators					2.39				
Welders, machine	2.79		1.89		2.40		2.55		
Metal finishers	2.89				2.47				
Sprayers	2.87		1.38		2.43		2.52		
Motor vehicle parts and accessories:									
Assemblers, male		2.87	1.46	1.56	2.13	1.64		2.45	2.44
Assemblers, female		2.44			1.53	1.10		1.85	1.71
Inspectors		2.80			2.29	2.12			
Laborers, material handling		2.59	1.17	1.30	2.00	1.62			
Machine-tool operators, production		2.87	1.67	1.77	2.19	1.76		2.47	2.49
Punch-press operators		2.62			2.03	1.57		2.01	2.01
Tool and die makers		2.53			2.59	2.47			
Welders, machine		2.88			2.00			2.11	2.06

1 Class C.
 2 Class B; males.
 3 Males.

Sources: U.S. Department of Labor, Bureau of Labor Statistics, Industry Wage Survey, Pt. I—Motor Vehicles. Pt. II—Motor Vehicle Parts. April 1963 (Bulletin No. 1263); and Canada Department of Labour, Economics and Research Branch, Wage Rates, Salaries and Hours of Labour, 1963 (Rept. No. 46).

Secretary WIRTZ. And the question, to be sure I understand it, is whether there are marked variations, and we are talking about wages among the various Provinces.

Senator GORE. Yes. I was particularly concerned, Mr. Secretary, with the variation in wages in the outer Provinces—well, not particularly outer Provinces, but in areas removed from the Detroit-Akron-Great Lakes areas—the cities, towns, and communities near the automotive production centers in the United States. I would think there would tend to be less difference in wage rate than there would be, for instance, between a wage rate in Detroit and Toronto or in Ottawa or Montreal.

I may be in error about that, and if you will find that information—

Secretary WIRTZ. It sounds reasonable. I would expect there would be some of that, and we will supplement the record to whatever extent it is illuminating to the extent of our information.

Senator GORE. Well, thank you, Mr. Secretary. I am sorry that it has taken so long and that there have been so many interruptions. I believe we have finally, particularly this afternoon, gotten to the kernel of the issue here. I can agree with you that a trade war would be a most undesirable, unwelcome event between the United States and Canada. The undesirability, however, of the event does not always prevent it from occurring, and with a remission of duty scheme Canada started it.

I do not like to see the United States take a powder and then give in even further and yet claim that there is some victory involved. It seems to me a rather ignominious performance. The law required countervailing duties, and the law was not obeyed, and this is advanced in my opinion as a substitute for action which was and still is legally required. I do not wish to foreclose any comment on your part, but this concludes my questioning.

Secretary WIRTZ. My comment would be very limited. First I do have for the record now the figure which either you or Senator Hartke requested as to the increase in U.S. employment, increase in employment in the U.S. automobile industry between June 1964 and June 1965. That figure is 112,000. From January of this year to June employment increased by 43,000 workers. I would suggest that that figure, probably like the Canadian figure which was referred to, has a high seasonal factor in it, so that there would be some question as to how far it could be relied on, but that was the information that was requested, and the increase this year from January to June was 43,000.

No closing comment. I have complete respect not only for the position that has been taken but for the identification of the difference and would not mean to open up any additional discussion but only to make clear that the basis of the testimony of the administration here has been so largely in terms which you fairly referred to as comparison of the situation with what it would be absent an agreement and the kind of legislation to which we here refer, and I mean only to summarize what has already been stated as the position that we do feel quite candidly, quite sincerely, and quite strongly, Mr. Chairman and members of the committee, that the development of an international trade policy in the pattern of the agreement and in

the pattern of the legislation before the Senate is imperative to the future welfare of the industry, both in Canada and in the United States, and if I summarize in terms of understatement, it will be only on the basis of everything which we have said having been already stated in the record.

Thank you very much.

Senator GORE. Thank you very much.

Excuse me just a minute. We have an honest disagreement. I hold this an improvident and unwise agreement, and I shall oppose it on the floor of the Senate.

Senator LONG. Mr. Secretary, let me just briefly spell out for the record the case for this as I see it and see if it fits, in view of the fact there have been a number of statements made and to some extent speeches made against this measure during the course of these hearings.

As I understand it, we have—how big is our trade surplus with Canada, Tom—I was just trying to see what our trade surplus with Canada is.

Secretary WIRTZ. About \$550,000 to \$575,000.

Senator LONG. Here is a statement our committee has, that we have, as I understand it, a favorable balance in goods and services with Canada in 1964 of \$1,183 million. Now, that is a favorable balance that we have. Of that, almost half of it is in automobiles and automobile parts of which we export about \$598 million and they export us in 1964 \$64 million, so that accounts for about 50 percent of our favorable trade balance with Canada.

As I understand it, that is being made up by American loans to Canada and by American investments in Canada. Now, minus those I should think Canada would have a very serious problem.

Now, further it is my understanding that Canada, just as other countries are doing, has a right, if she wants to, to impose tariffs or impose these stipulations that these automobiles be made principally in Canada to the extent she could shut off that \$523 million favorable balance that we have with that country. Is that not what other countries are doing? Is not Brazil doing that as her automobile industry grows?

Secretary WIRTZ. That is correct.

Senator LONG. In other words, she is stating that they be entirely made or 90 percent Brazilian made.

Secretary WIRTZ. That is correct.

Senator LONG. If we undertake countermeasures against Canada as she moves in to protect her domestic automobile industry and this develops into a trade war between the two countries, in view of the fact that we have a favorable balance of about \$1,180 million of a gross trade—let us say of a trade that works out to about \$4 billion, somewhere about, \$4.5 billion on U.S. exports—would it not in fact be that if we engage in this kind of a cutthroat activity where we retaliate and then Canada retaliates and we retaliate again, that if all trade was shut down between the two countries while both countries would lose, we would be by far the larger loser?

Secretary WIRTZ. Ten to one.

Senator LONG. Yes. In this particular item we figure to lose 10 to 1. It is not fair to recognize that Canada is in position—I be-

lieve she consumes about 7 percent of the automobiles in this hemisphere, does she not?

Secretary WIRTZ. That is correct.

Senator LONG. And she produces about 4 percent, so Canada is in position to take restrictive measures and such as this country is doing in some of its own activities; we have given our own sugar producers, for example, a better share of the sugar market, and I know some members of the committee, particularly from States that do not produce sugar, do not particularly like that, but Canada is in position to take steps to protect her own domestic industry, is she not?

Secretary WIRTZ. That is correct.

Senator LONG. And if she wants to over a period of time, she can shut out all of our production.

As I understand it, this study here indicates—from the Tariff Commission—that in the event that we proceeded upon the same basis that we were proceeding minus this agreement, that the increase in Canadian production in terms of Canadian value added—and I am reading from page 24 of the U.S. Tariff Commission's report, "that the increase in Canadian value added would be just about the same as it would be if we make this agreement."

Others have made speeches. Let me read this:

Moreover by model year 1968 Canadian output in terms of Canadian value added will probably be materially larger than it would have been as a result of the prearrangement level of Canadian tariff protection alone. On the other hand, it will perhaps not be larger than it would have been if the 1963 Canadian tariff rebate plan had continued in force.

Secretary WIRTZ. Yes.

Senator LONG. Is it not a fact that Canada, in looking for ways in which she can improve her foreign exchange position and ways in which she can expand industrial production and employment of her people, recognizes this is one of her deficit areas and has every right and is likely to move in that area minus this agreement?

Secretary WIRTZ. Surely every legal right. I say every legal right, Mr. Chairman, I am not sure about that.

Senator LONG. Well, she has the power. Morally it might be one thing, but as far as the power is concerned, the power lies in the sovereignty of Canada to do that.

Secretary WIRTZ. That is my understanding.

Senator LONG. I am further informed, my attention is further directed to the point that, according to the Commerce Department figures, during the last 6 months while this agreement has been in effect, even with the so-called side agreements which have been discussed here, the U.S. production of passenger cars has grown by 15 percent while the Canadian production has grown by 11.9 or roughly 12 percent.

So as a practical matter our production has been going faster than Canada's in the last 6 months with this agreement in effect.

Now, as a practical matter is it not fair to expect that Canada naturally will continue to expand in automobile production, and in view of the fact that Canada is a deficit area she will make up some of that deficit?

I would like to ask you this: Is it not intended and is it not the understanding of these agreements that the effect of this will be that we will continue to maintain this multimillion, well, this half-billion-dollar

trade surplus in trading with Canada on these parts even though we anticipate that, of course, Canada will increase her production particularly for her own domestic market?

Secretary WIRTZ. Yes, sir, Mr. Chairman, and to increase that figure.

Senator LONG. Yes.

Well, may I say, Mr. Secretary, I have heard a lot of people who claim to be free traders express their views in advocacy of free trade, and if I ever saw an agreement that every effort has been made to not only support the free trade theory but to provide protection and to provide help for anybody who is hurt, that this agreement seems to have been worked out as much as we can in that regard.

Now, I have no further questions of the Secretary. By the way, do you have the information about the Brazilians, the extent to which they have curtailed American imports and other foreign imports of automobiles?

Secretary WIRTZ. The statement you made is very right, very correct, and I would be glad to add to the record simply a paragraph or two suggesting the details of that.

Senator LONG. All right. I would like to have it for the record.

Secretary WIRTZ. Yes.

(The information referred to follows:)

The Brazilian requirement that a specified percentage of the total value of cars and trucks be added in Brazil was increased from a 65-percent local content requirement in 1958 to a 98-percent local content requirement in 1963. Brazilian law now specifies that 98 percent of the parts going into an automobile be Brazilian made.

During this period, U.S. exports to Brazil of vehicles and automotive parts and equipment declined from \$82 million in 1958 to \$14 million in 1963.

In addition to Brazil, Australia, Mexico, Britain, Argentina, and the Common Market have restricted automotive imports through content provisions, high external tariffs, or import licenses. These countries have paid a high price for this in terms of the impact such policies have on the consumers of automotive products; but this price has been considered preferable to persistent and widening payments deficits and reduced employment. In the past Canada has taken this course of action, and it is reasonable to expect that Canada, in its own self-interest, would take more restrictive action if the pending agreement is not implemented.

Senator LONG. I will endeavor to find out if some other Senator wants to examine Mr. Shewmaker and Mr. Trued.

Do either of those gentlemen have prepared statements or are they here to answer questions?

Mr. SHEWMAKER. Answer questions.

Senator LONG. Is that true of Mr. Trued?

Mr. TRUED. Answer questions.

Secretary WIRTZ. Mr. Chairman, may I express our very great appreciation for the committee's hearing in this matter. This has been a full opportunity to present their views. You know we feel very strongly the view of the administration as you know, and may I add, sir, appreciation of your handling of the sometimes difficult situation which has developed, and I mean that quite sincerely.

Senator LONG. Thank you very much, Mr. Secretary.

Would you come and present your statement, Mr. Trued?

Mr. TRUED. I beg your pardon?

Senator LONG. Would you present your statement?

Mr. TRUED. Shall I present it? Do you wish me to read it, Mr. Chairman? I can submit it and answer questions or I will be glad to read it.

Senator LONG. Why do you not just read the statement since you are here, Mr. Trued, and I am finding out from Senator Gore if he wants to come back and ask you some questions and, if so, when.

STATEMENT OF MERLYN N. TRUED, ASSISTANT SECRETARY OF THE TREASURY

Mr. TRUED. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, I appreciate the opportunity to appear before you to comment on the balance-of-payments implications of the proposed legislation to implement the United States-Canadian Automotive Products Agreement.

As this committee knows, the United States has had a substantial overall surplus on trade account with Canada, over the years. Our automotive trade with Canada has contributed substantially to that surplus.

With the automotive products agreement in force, Secretary Connor testified before the committee 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 favorable balance of trade with Canada.

The Treasury supports this conclusion.

Let me begin by reviewing with you the basic figures supporting this conclusion.

(In millions)

	Model year	
	1964 ¹	1968
Total sales in Canada (and out of Canada to 3d countries) of automotive products made in United States and Canada	\$1,542.5	\$2,090
Canadian value added of automotive products made in Canada (including replacement parts)	962.4	1,510
U.S. net surplus in automotive products trade with Canada	581.1	580

¹ Based on official statistics of the U.S. Department of Commerce and the Canadian Dominion Bureau of Statistics, supplemented by industry information.

The first line in the table shows for model year 1964, on an actual basis, and for 1968, on a prospective basis, the sales in Canada (and out of Canada to third countries) of automotive products produced in both the United States and Canada. The second line shows the Canadian value added of automotive products produced in Canada whether for sale in Canada, export to the United States or export to third countries. The difference between these lines shows net U.S. exports to Canada. This trade surplus of \$581 million in model year 1964 will, on the basis of our estimates, be approximately the same in model year 1968.

The figure of almost \$2.1 billion at the top of the second column represents the expected size of the Canadian automotive market for automotive products produced in the United States and in Canada in 1968. It also includes about \$72 million of exports from Canada to third countries. It assumes a rate of growth of 8 percent per year in the number of automotive units that will be absorbed by the Canadian market between 1964 and 1968. This 8-percent growth estimate is a

projection of the growth that has characterized the Canadian market in recent years.

Official Canadian statistics show that for the 5-year period, 1960 through 1964, the annual rate of growth in number of units sold averaged 8.5 percent a year. In the 2 years 1963 and 1964, it averaged 12 percent a year.

In value terms, the growth was even greater—averaging 10.6 percent a year for the period 1960 through 1964; and over 14 percent a year for the last 2 years.

The estimate of an 8-percent increase per year in number of units sold is on the conservative side, as these figures suggest.

The Canadian economy, in our opinion, shows every prospect for a strong rate of economic growth over the period through 1968, and with this growth the demand for automobiles can be expected to continue strong. This is so even if automobile prices in Canada remain the same. If they decline as the industry gets on a more efficient basis, the estimate of an 8-percent increase per year in the number of units sold may be even more on the conservative side.

The second figure in the righthand column derives from the 1964 figure of Canadian value added and the two undertakings of the Canadian companies with the Canadian Government. These undertakings provide that, of the total growth of sales in Canada of North American produced cars and trucks, 58 percent—60 percent in the case of cars and 50 percent in the case of trucks—and I might add 40 percent in the case of some small producers—will represent Canadian value added. Over and above this growth factor, the automobile companies have undertaken to produce an additional \$241 million of value added in Canada by 1968. The sum of these figures, plus Canadian value added in 1964, gives the \$1.5 billion of Canadian value added in 1968. By subtracting this figure from the estimated market in Canada for North American produced cars in 1968, we obtain the estimated net value of automotive products that will be supplied to the Canadian market by the United States in 1968.

What the table shows, in short, is that the increase in Canadian value added in the automotive industry between 1964 and 1968 will absorb all of a conservatively estimated increase in the Canadian market for North American produced cars. If the growth of the market should be greater than 8 percent, the U.S. automotive trade surplus with Canada in 1968 should exceed the 1964 surplus. After 1968, when the companies no longer have an undertaking with respect to a special \$241 million of value added in Canada, the prospects for an increase in the U.S. automotive trade surplus with Canada will be better. I might note, Mr. Chairman, that our surplus in the first half of this year was about \$45 million above that in the first half of 1964.

From a balance-of-payments viewpoint, then, the automotive agreement simply means this: Under it we stand to maintain our present sizable surplus with Canada in automotive trade. Without the agreement, we stand to lose a part of our present surplus. There is no doubt in the administration's mind of this outcome, and I believe other Government witnesses have indicated their firm judgment that, in the absence of the agreement, Canada would undertake measures to limit imports from the United States and I might add, Mr. Chairman,

your comments at the conclusion of Secretary Wirtz's testimony are perfectly fitted to that result.

There is another balance-of-payments consideration that I would like to mention briefly in this context. It relates to investment in Canada. The means of financing investments in the automotive industry in Canada in recent years have been reinvestment of local earnings and borrowing in the Canadian market. As Secretary Connor has stated, this pattern will probably continue. That probability is heightened by the fact that under the agreement the companies will have substantial savings from the waiver of Canadian duties they would otherwise have had to pay. This means that any additional investment resulting from the companies' undertakings should involve little, if any, cash transfers from the United States.

Cash transfers from the United States would be a direct loss to our balance of payments except insofar as they involve export of U.S. goods. For this reason, we do not anticipate an adverse effect on our balance of payments from increased automotive investment in Canada.

The tightening of Canadian restrictions on imports of U.S. automotive products, in the absence of the agreement, would have probably induced companies to accelerate their investment in Canadian facilities to a degree that may well have required some cash flow from the United States with a consequent adverse effect on our balance of payments.

The above considerations are those which have led me to express Treasury Department concurrence in Secretary Connor's position on the balance-of-payments effects of the automotive agreement.

Thank you, sir.

Senator LONG. Thank you very much.

I have no further questions. I think it is a very fine statement you have made, Mr. Trued.

Mr. TRUED. Thank you, Mr. Chairman.

Senator LONG. I wish to state that the committee in executive session on Thursday, September 9, discussed the question of holding hearings and it was agreed that we would hold 2 days of hearings, Tuesday, September 14, and Wednesday, September 15, and to take the bill up in executive session on Thursday, September 16. That would have been last Thursday.

On Tuesday, we had the Under Secretary of State, the Secretary of Commerce, the Secretary of Labor scheduled as well as representatives from the four major automobile companies, and the United Automobile Workers. Although we met both morning and afternoon, we were unable to complete the interrogation of even one of the three Government witnesses. Thus the witnesses originally scheduled for Wednesday were rescheduled for Thursday, and we sat in morning and afternoon hearings on Wednesday hearing the witnesses originally scheduled for Tuesday.

Senator Hartke requested that the Secretary of Labor be recalled for further questions. Senator Gore asked that representatives of the Tariff Commission be called. Senator Hartke requested that a representative of the Treasury Department be called for questioning on balance of payments.

These three were scheduled for today inasmuch as we already had a full day of witnesses scheduled for Thursday. This is the fourth day of public hearings both morning and afternoon.

The committee is scheduled to have an executive session on the subject at 10 o'clock tomorrow and the representative from the Tariff Commission will be requested to be here at 9 o'clock in order that he might answer any questions that any Senators might care to ask of him at that time.

With the exception of the witness from the Tariff Commission, that closes the hearings.

(The following supplemental statement was later received for the record:)

**RUBBER MANUFACTURERS ASSOCIATION,
New York, N.Y., September 20, 1965.**

To: Members of the Senate Finance Committee.

Subject: Supplemental remarks to statement of the Molded and Extruded Products Division on H.R. 9042, the Automotive Products Trade Act of 1965.

GENTLEMEN: The enclosed remarks substantiate the division statement offered for your consideration on September 10, and highlight the detrimental effect H.R. 9042 can have on the molded and extruded rubber goods industry in the United States.

We respectfully urge that you will give every consideration to the enclosure which further justifies exemption of these automotive component parts from the bill.

Very truly yours,

GEORGE A. WHITE, Secretary.

SUPPLEMENTAL REMARKS TO THE STATEMENT OF THE MOLDED AND EXTRUDED PRODUCTS DIVISION, THE RUBBER MANUFACTURERS ASSOCIATION, INC.

Our principal objection to this bill is the loss of domestic sales that will occur for the many small companies comprising the molded and extruded rubber goods industry. Although much attention has been paid during the committee hearings to the new potential export markets that will be opened up for parts manufacturers, it is the consensus of opinion among the small rubber companies that export sales presently constitute an insignificant portion of their total sales, and that no increase in export potential would be realized from the enactment of H.R. 9042. The chief concern of these companies is the significant loss of business in their existing domestic markets.

We can summarize our objections under three major headings:

1. The automobile companies are placing a high priority on buying Canadian and are currently aggressively seeking and developing new Canadian sources to supply the United States market. Although statistical data is not easily available, it is acknowledged that the bulk of the present United States exports of original equipment parts to Canada are supplied by the automobile companies and not the independent parts companies. In order to minimize the investment in Canada, it is only logical that the United States automobile companies will increase their exports to the expanding Canadian market, particularly those exports manufactured on the high-cost equipment and tooling.

At least one United States automobile company has stated that any shortage of Canadian contents will be made up by increased purchases of component parts to offset this deficit.

Obviously, the automobile companies want to minimize capital investment in Canada. In order to utilize their U.S. facilities for the production of high-cost automotive components which would probably be exported to Canada, it will be necessary to import parts from Canada to offset their increased exports. We submit that this will not be done at the expense of the captive sources of the automobile companies but will be done at the expense of independent suppliers such as molded rubber goods producers. The Canadian molded and extruded rubber goods industry is firmly established as a supplier to the Canadian automobile industry and it requires little effort to develop the rubber industry in Canada as a suitable source for the U.S. automotive industry.

Thus, the U.S. rubber goods producer finds himself in the ironical position of diversifying by the creation of new production facilities in Canada in order to protect his existing U.S. markets. Not only will this affect the efficiency of his U.S. plant, it will effectively export jobs to Canada.

Our industry people are keenly aware of the numerous efforts being made to place business in Canada that historically has been manufactured in the United States. Various incentives given to U.S. automotive plants to buy Canadian will only accelerate this erosion of business for the U.S. rubber parts manufacturer. To protest to the automotive company this loss of business and jobs only jeopardizes the remaining business of the rubber producer.

We shall cite one example to illustrate our point that business is in the process of being lost and will continue to be lost to Canadian suppliers. Part X is sold to one of the Big Three automotive companies by a small U.S. rubber producer. The present going competitive price on this part for illustrative purposes is 30 cents each. Bids were solicited in Canada and one Canadian company offered to sell the part for 26.5 cents. The automobile company has advised the present U.S. supplier that in order to keep this business the U.S. supplier would have to better the present Canadian price. The parts supplier cannot cut costs to that level and will lose the business and with it about five U.S. jobs. Multiply this incident by many others and you can accurately forecast a substantial loss of jobs in the U.S. economy.

2. The nature of the molded and extruded rubber goods business provides inherent cost advantages for the Canadian producer as opposed to the American producer:

(a) Cost of raw materials in Canada is about the same as it is in the United States. In many automotive rubber parts, the cost of raw materials constitutes 50 to 70 percent of the cost of the finished product. With similar material costs, labor cost differentials become extremely important.

(b) Labor rates in the Canadian rubber industry are about 50 cents an hour lower than in the U.S. industry.

(c) The degree of technological advancement in this segment of the rubber industry has been limited. Equipment development has been restricted so that such pieces of equipment as molding presses or extruders are quite similar today to those purchased 15 years ago. As a result, the capital investment in the rubber industry is substantially lower than in other industries. As a necessary adjunct to this, the degree of mechanization in the industry is quite low. A large part of this lag in technology can be traced to the depressed price structures forced upon the industry by many existing buying practices of the automobile companies.

(d) This lagging technology is further manifested by a lack of new product innovations which would normally yield higher prices and profits to finance mechanization. Since most new product ideas must ultimately be shared cost free with the automobile company, there is little financial incentive to spend development money.

(e) Sixty-two percent of the rubber consumption in the United States goes to the automobile industry. This puts most small parts producers under the price persuasion of the automobile companies.

(f) The present return on sales of American rubber companies is about 3.6 percent as compared with slightly less than 7 percent for the automobile companies themselves.

(g) Therefore, equivalent material costs, lack of mechanization, and lower labor rates put the Canadian rubber producer in an advantageous cost position.

3. The Canadian molded rubber goods industry is not the inefficient producer it is pictured to be. This is evidenced by the fact that prices currently charged by Canadian rubber companies to Canadian automobile divisions are about the same as prices being charged by United States rubber producers.

It is our conclusion that this bill exists solely for the benefit and control of the large automobile companies. This unilateral control of power will work to

the detriment of many small companies that depend upon the automobile industry for survival.

We again respectfully request that the exemption granted the tire and tube manufacturers be extended to the other specified products of the molded and extruded rubber goods industry. In addition, the parts suppliers of the United States should be given the same protection given the Canadian industry; namely, that the United States contents on United States cars should not go below the 1964 level.

(Whereupon, at 4:20 p.m., the committee recessed, to reconvene at 9 a.m., September 21, 1965.)

UNITED STATES-CANADIAN AUTOMOBILE AGREEMENT

TUESDAY, SEPTEMBER 21, 1965

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to recess, at 9 a.m., in room 2221, New Senate Office Building, Senator Russell B. Long presiding.

Present: Senators Long, Smathers, Gore, Talmadge, and Morton.

Also present: Elizabeth B. Springer, chief clerk, and Thomas Vail, professional staff member.

Senator Long. The committee will come to order.

I place in the record the report of the U.S. Tariff Commission on H.R. 9042.

(The report referred to follows:)

UNITED STATES TARIFF COMMISSION
Washington

September 16, 1965

REPORT TO COMMITTEE ON FINANCE ON H.R. 9042, 89TH CONGRESS, AN ACT
"TO PROVIDE FOR THE IMPLEMENTATION OF THE AGREEMENT CONCERNING
AUTOMOTIVE PRODUCTS BETWEEN THE GOVERNMENT OF THE
UNITED STATES OF AMERICA AND THE GOVERNMENT
OF CANADA, AND FOR OTHER PURPOSES"

H.R. 9042--the "Automotive Products Trade Act of 1965"--is designed primarily to implement the U.S.-Canadian automotive agreement signed January 16, 1965. With certain exceptions set forth below, the provisions of H.R. 9042 are substantially the same as the provisions of H.R. 6960, 89th Congress, which was the subject of public hearings held April 27, 28, and 29, 1965, by the Committee on Ways and Means.

The Tariff Commission on April 23, 1965, submitted to the Ways and Means Committee a report on H.R. 6960. In view of the limited time available, it is believed that the Commission can best assist your Committee by furnishing in this report on H.R. 9042 information as to the developments since the report on H.R. 6960 was made to the Ways and Means Committee, and by attaching hereto a copy of the latter report.

Developments Since the Report to the Committee on
Ways and Means on the Automotive Products
Trade Act of 1965

Petition in the United States for
imposition of a countervailing duty

On March 29, 1965, the Industrial Committee of Paducah, Kentucky, filed a petition with the Commissioner of Customs asking for the

^{1/} The petition was filed two days before H.R. 6960--the initial bill to implement the U.S.-Canadian agreement--was introduced in the House of Representatives.

imposition of countervailing duties on imports of automotive products from Canada. The petition charged that the Canadian Orders-in-Council of January 18, 1965 (by which Canada unilaterally carried out its obligations under the U.S.-Canadian agreement), together with the collateral commitments by the Canadian motor-vehicle manufacturers to the Government of Canada, constituted the bestowal of a bounty or grant to stimulate exports, thereby making section 303 of the Tariff Act of 1930 operative (see pages 6 and 7 of the attached report).

On May 21, 1965, the Treasury Department issued a ruling that the Canadian actions did not result in the exportation of articles on which a bounty or grant had been paid or bestowed. Hence, no countervailing duty would be imposed.

Collateral commitments by the Canadian motor-vehicle manufacturers to the Government of Canada

The U.S.-Canadian automotive agreement was accompanied by a series of collateral commitments made by the individual Canadian motor-vehicle producers to the Canadian Government. These commitments were contained in so-called letters of undertaking from the companies to the Canadian Minister of Industry. When the Tariff Commission prepared its report to the Committee on Ways and Means on H.R. 6960, the letters were not available to it; nevertheless the Commission was able in large part to deduce the contents of the letters from public statements by interested parties. Subsequently, the letters of undertaking written by the "Big Three" in Canada (and American Motors (Canada)) were submitted to the Committee on

1/ Ways and Means. However, as far as the Tariff Commission is aware, copies of the letters of undertaking by the other Canadian motor-vehicle producers have not been published. Further, it would appear from the texts of the four published letters that such letters do not fully express the present collateral commitments and that such commitments might be modified--or new commitments made--in the future.

Based on the four published letters of undertaking, the following observations are pertinent: The Tariff Commission's earlier analysis of the collateral commitments is essentially correct (see pp. 21 ff. of the attached report). The companies have committed themselves to increase the "Canadian value added" of their Canadian automotive production by about 60 percent^{2/} of the "growth in the market" for their vehicles in Canada, and further by a stated amount by the 1968 model year--the amounts for all companies aggregating \$241 million U.S. dollars. For this purpose, the "growth in the market" will be measured by the difference between the cost of the vehicles sold in Canada in a model year and the corresponding cost in the base year (1964 model year). The Commission had earlier thought that the "growth in the market"

1/ Committee on Ways and Means, House of Representatives (89th Cong., 1st sess.), Letters of Undertaking from General Motors of Canada, Ltd., and Others, to the Hon. C. M. Downy, Minister of Industry, Ottawa, Canada, with Respect to Agreement Between the Governments of the United States and Canada Concerning Production and Trade in Automotive Products [Committee Print], Apr. 28, 1965.

2/ The percentage may vary from class to class of motor vehicle, and possibly from producer to producer; it apparently averages 58 percent for all Canadian producers.

would be measured by differences in aggregate annual sales value of vehicles sold in Canada. The difference in method of measurement, however, does not substantially affect the Commission's analysis of the probable economic effect of the agreement that was contained in the attached report. A meaningful analysis of the agreement, of course, necessitates consideration of the terms of both the agreement proper and the collateral commitments.

Differences between H.R. 9042 and H.R. 6960

Implementation of agreements other than the U.S.-Canadian automotive agreement.--See pages 32-39 of our report on H.R. 6960 for a discussion of this matter. The Ways and Means Committee added subsections (c) and (d) to section 202. Subsection (c) sets forth prenegotiation procedures and, as in the case of trade agreements negotiated within the framework of the Trade Expansion Act of 1962, would require that the President obtain advice from the Tariff Commission as to the probable economic effect of the proposed reduction or elimination of duties, and that he give to interested parties reasonable public notice of his intention to negotiate such an agreement and an opportunity to present their views.

Under subsection (d), the President would be authorized to issue any proclamation to carry out such agreement only after the expiration of the 60-day period following the date of its delivery to the Congress, and only if during this period the Congress has not adopted a concurrent resolution stating in substance that the Senate and House of Representatives disapprove of the agreement.

"Transitional" assistance for firms and workers.-- The transitional arrangement provided for in section 302 of H.R. 6960 would have made two changes from the Trade Expansion Act: (1) the determination of eligibility to apply for adjustment assistance and the related investigative authority would have been vested with the President rather than with the Tariff Commission, and the criteria would have been changed. The Ways and Means Committee amended this section to provide (see section 302(e) of H.R. 9042) for the Tariff Commission to conduct the investigations and to make factual reports to the President to assist him in his determinations. The "transitional" assistance for firms and workers is discussed on pages 54-59 of our report on H.R. 6960.

In addition, the Ways and Means Committee did not incorporate into H.R. 9042 provisions set forth in section 302(j) and (k) of H.R. 6960 which would have given to the President certain compulsive powers to obtain information relating to the "transitional" adjustment assistance cases, and would have permitted in certain situations the disclosure of information obtained. These provisions of H.R. 6960 are discussed on pages 60 and 61 of our report on that bill.

The other changes made by the Ways and Means Committee were for the most part clarifying in nature.

The staff of the Tariff Commission has already informally submitted to the office of the Senate Legislative Counsel a list of technical conforming changes in the provisions of Title IV of H.R. 9042 which would be necessitated by the passage of H.R. 7969, the "Tariff Schedules Technical Amendments Act of 1965".

UNITED STATES TARIFF COMMISSION

**REPORT TO THE COMMITTEE ON WAYS AND MEANS ON
H.R. 6960, 89TH CONGRESS, THE AUTOMOTIVE
PRODUCTS TRADE ACT OF 1965**

Washington

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UNITED STATES TARIFF COMMISSION

Washington

April 23, 1965

REPORT TO THE COMMITTEE ON WAYS AND MEANS ON
H.R. 6960, 89TH CONGRESS, THE AUTOMOTIVE
PRODUCTS TRADE ACT OF 1965

INTRODUCTION

H.R. 6960 is designed to "provide for the implementation of the agreement concerning automotive products between the Government of the United States of America and the Government of Canada, and for other purposes." The Agreement Concerning Automotive Products between the United States and Canada was signed in Johnson City, Texas, on January 16, 1965.

Like nearly all proposed legislation, H.R. 6960 is best understood in the light of its historical and economic background. Accordingly, this report reviews the subject in three major sections. The first briefly describes the events antecedent to the negotiation of the agreement and submission of the bill, as well as the major economic factors pertaining to trade in automotive products between the United States and Canada. The second section analyzes the U.S.-Canadian agreement and the important collateral commitments made by automotive producers to the Government of Canada. The third section analyzes the provisions of H.R. 6960, and compares its provisions to those of prior legislation and to U.S. obligations under the General Agreement on Tariffs and Trade (GATT).

The Appendixes at the end of the report include statistical tables and copies of relevant documentary materials.

HISTORICAL AND ECONOMIC BACKGROUND:

Events Antecedent to the Submission of H.R. 6960

The Bladen plan

In 1960, the Canadian Government appointed a Royal Commission on the Automotive Industry, with Professor V. W. Bladen as the sole Commissioner, to recommend measures "to provide increased employment in the economic production of vehicles for the Canadian Market and export markets." The appointment of the Royal Commission resulted largely from concern about the lack of growth in Canadian motor vehicle production and the substantial import balance of Canada's trade in automotive products.

In his report of August, 1961, Professor Bladen recommended an "extended content" plan. Canadian companies would be permitted to import all motor vehicles and parts duty-free, conditional only upon fulfillment of certain percentages of Canadian content in their costs of production. Exported Canadian automotive products were to count toward the fulfillment of the Canadian content; thus the remission of import duties would operate to promote Canadian exports of parts. 1/3

The tariff rebate plans

In November 1962, partly in response to the recommendations made in the Bladen Report, the Canadian Government initiated a program to improve its competitive position (especially against imported British cars). Professor Bladen offered seven recommendations which he regarded as complementary to one another. The six proposals not dealt with above were intended to relieve the tax burden on the industry and to improve its competitive position (especially against imported British cars).

stimulate exports of automotive products. Under an Order-in-Council, the duty paid by a Canadian automobile producer on imports of automatic transmissions and stripped engines (up to 10,000 engines for each producer) would be remitted to the extent that the Canadian content of automobile parts exported by the producer exceeded that of the 12 months ending October 31, 1962 (the "base period"). 1/ A year later, effective November 1, 1963, the tariff rebate plan was expanded; 2/ thereafter duties were remitted on all imports of motor vehicles and original-equipment parts to the extent that the company in question increased the Canadian content of its exports of all automotive products above that of the base period. 3/

Following the inauguration of the program, the value of Canadian exports of automotive parts to the United States increased from around \$9 million in 1962 to \$30 million in 1963, then to about \$65 million in 1964 (table 5 in Appendix A). 4/ During the same period, Canadian

1/ P.O. 1962-1/1536, Oct. 26, 1962. The suspension of a 25-percent import duty on automatic transmissions was terminated by the Order. Glass, fabrics, and rubber products (including tires and tubes) did not count toward export credits against duties, nor did the Canadian content of finished automobiles. Canadian content is that portion of the value of an article produced in Canada derived from indigenous Canadian sources.

2/ P.O. 1963-1/1544, Oct. 22, 1963. Parts were defined as motor vehicle parts that if imported into Canada would be classified under tariff items 410a, 424, and 438a through 438u.

3/ For purposes of the plan, exports were construed as including purchases of Canadian parts directly from an independent Canadian supplier by foreign affiliates of the Canadian manufacturer. A Canadian producer could qualify for such duty remissions only if at least 40 percent of the total number of vehicles which it sold in Canada were produced in Canada. The program was thus applicable only to those companies which had major assembly operations in Canada.

4/ All dollar figures shown in the text of this report are in U.S. dollars.

exports to the United States of complete motor vehicles also rose sharply, the annual value increased from \$3 million in 1962 to \$4 million in 1963, and then to \$24 million in 1964. Although other factors, such as the strong demand for automobiles in the U.S. market, were important influences, the increases in exports were large enough to suggest that the duty rebate plan played a significant role.

About 6 weeks after the Canadian tariff rebate plan was expanded, Studebaker announced that it was transferring its vehicle assembly operations from South Bend, Indiana, to Hamilton, Ontario. Referring to the expanded plan, a spokesman for the company stated that the "economic climate in Canada thus established and, of course, the timing, were tailor-made for our move to Canada." 1/

Petition in the United States for imposition of a countervailing duty.

On April 15, 1964, the Modine Manufacturing Company of Racine, Wis., a producer of automobile radiators, filed a petition with the Commissioner of Customs under section 303 of the Tariff Act of 1930. 2/ The petitioner charged that the Canadian export-incentive program constituted a bounty or grant on the exportation of automobile parts to the United States and requested that a countervailing duty of 25 percent be levied on imports of such products from Canada. 3/

1/ Studebaker of Canada, Ltd., "A Special Report on Our Canadian Automobile Manufacturing," Dec. 14, 1963.

2/ The text of sec. 303 is shown in Appendix B.

3/ Before the Commissioner of Customs: Memorandum in Support of Petition for Issuance of a Countervailing Duty Order Pursuant to Section 303, Tariff Act of 1930, with Respect to Motor Vehicle Radiators Exported from Canada with Benefit of a Bounty or a Grant, April 15, 1964.

On July 21, 1964, the Automotive Service Industry Association, a trade association representing some 5,000 producers, rebuilders, and distributors of automobile parts, filed a brief with the Bureau of Customs in support of Modine's position.

On June 3, 1964, the Treasury Department opened an investigation to determine whether the Canadian export-incentive plan in fact constituted the payment or bestowal of a bounty or grant within the meaning of section 303. ^{1/}

On January 12, 1965, the Automotive Service Industry Association, together with four independent parts manufacturers, ^{2/} filed suit against the Secretary of the Treasury in U.S. District Court, asking that a writ in the nature of mandamus be issued compelling the Secretary to levy the countervailing duties requested under the petitions of April 15 and July 21, 1964. ^{3/} This suit is still before the court.

Meanwhile, the automotive agreement was signed on January 16, and Canada amended the Order-in-Council to provide that duty remissions would not be paid as a result of any exportation after January 17. In view of Canada's action, the Treasury Department terminated the investigation on January 18. ^{4/}

^{1/} 29 F.R. 7249.

^{2/} Century Foundry of St. Louis, Mo.; Iron City Spring Co. of Pittsburgh, Pa.; Muskegon Piston Ring Co. of Muskegon, Mich.; and Service Spring Co. of Indianapolis, Ind.

^{3/} Automotive Service Industry Association, et al. v. Dillon, D.D.C. Civil No. 79-65.

^{4/} 30 F.R. 764.

Conclusion of the U.S.-Canadian agreement

After the U.S.-Canadian automotive agreement was signed on January 16, 1965, Canada unilaterally implemented its provisions by two Orders-in-Council, effective January 18, 1965. 1/ The Treasury Department immediately ordered suspension of customs liquidation on entries carrying a declaration by the importer that the merchandise involved "is believed to fall within Annex B of the United States-Canadian agreement of January 16, 1965." 2/ Such suspension is to continue pending congressional action on H.R. 6960, which was introduced on March 31, 1965.

New petition in the United States for imposition of countervailing duty

Two days before the introduction of H.R. 6960, the Industrial Committee of Paducah, Ky., filed a petition with the Commissioner of Customs asking for the imposition of countervailing duties on imports of automotive products from Canada. The petition charged that the new Canadian Order-in-Council which took effect on January 18, 1965, constitute a bounty program to stimulate exports, thereby making section 303 of the Tariff Act of 1930 operative. It further alleged that the Canadian action is "a continuation in different garb of the motor vehicle and motor vehicle parts export subsidy scheme,

1/ P.O. 1965-99; P.O. 1965-100.
2/ T.D. 56351.

'introduced in 1963'." 1/ The petition is now under study by the Bureau of Customs, which, on April 17, 1965, published a "notice of opportunity to present views" on the questions involved. 2/

Economic Background

U.S. and Canadian tariff structures

The Canadian tariff schedule for motor vehicles and parts consists of a complex series of provisions designed to protect the manufacture of both motor vehicles and parts in Canada. The basic tariff rates 3/ are 17-1/2 percent ad valorem for completed vehicles and many parts, and 25 percent ad valorem for certain components (including engines and automatic transmissions). For a large number of articles generally used in the production of parts (e.g., bearings, bushings, gaskets), entry is free of duty if the article is of a class or kind not made in Canada. Similarly, for a large number of articles generally used directly in the production of motor

1/ The petitioner in this new action is an independent group representing "the interests of the citizens" of Paducah. The petitioner states that Paducah's third largest employer, Modine Manufacturing Company (the petitioner in the first action), is contemplating a move to Canada "because of the continuation by Canada of its program . . ." Before the Commissioner of Customs: Memorandum in Support of Petition for Issuance of a Countervailing Duty Order Pursuant to Section 303, Tariff Act of 1930, with Respect to Motor Vehicle Radiators and Motor Vehicles Produced in and Exported from Canada with the Benefit of a Bounty or Grant, Mar. 29, 1965.

2/ 30 F.R. 5534.

3/ The Canadian tariff rates discussed in the text are the most-favored-nation rates which apply to imports from the United States and most non-Commonwealth countries. For each tariff item, the schedule also contains general tariff rates (generally higher than the m-f-n rates) and British Preferential Tariff rates (free for nearly all items).

vehicles (e.g., carburetors, speedometers, torque converters), entry is free if the article is of a class or kind not made in Canada and the article is to be used by a Canadian producer meeting a Commonwealth (effectively Canadian) content requirement. 1/ The content required may be 40, 50, or 60 percent; the greater the number of vehicles produced by the individual producer, the higher the percentage content he must attain. The provisions permitting conditional duty-free entry afford, of course, considerable indirect protection to Canadian producers of motor vehicles and parts.

The United States imposes duties on imports of motor vehicles and parts, but generally at materially lower rates than the Canadian tariff rates. Passenger cars, as well as trucks valued under \$1,000, are dutiable at 6.5 percent ad valorem; buses, at 8.5 percent ad valorem; and trucks valued at \$1,000 or more, at 25 percent ad valorem. 2/ Before the Tariff Schedules of the United States (TSUS) became effective in August 1963, parts of motor vehicles were generally dutiable at 8.5 percent ad valorem. The great bulk of parts currently being imported are still dutiable at that rate; but others are now classified under a wide variety of TSUS items at many different rates of duty.

1/ That is, a minimum proportion of the factory cost is incurred in Canada.

2/ This is a temporary rate which became effective on Jan. 7, 1964. It was proclaimed by the President in retaliation for increased import restrictions imposed by the European Economic Community on chickens in 1963. The trade-agreement rate for trucks valued at \$1,000 or more is 8.5 percent ad valorem.

The "Big Three" motor vehicle producers predominate in both countries

Chrysler, Ford, and General Motors (the "Big Three") are by far the major motor vehicle producers in both the United States and Canada. 1/ In 1964, these three companies accounted for 95 percent of the passenger cars and 79 percent of the trucks and buses produced in the United States; the corresponding figures for Canada were 90 percent and 89 percent, respectively. 2/

The production of passenger cars in the United States is concentrated almost exclusively in five corporations (the "Big Three" plus American Motors and Checker Motors). Plants are located in 18 States; Michigan currently accounts for more than 30 percent of the value of assembled passenger cars produced in the United States.

Trucks and buses are produced in the United States by 18 companies, in addition to the "Big Three." Of the 18, the major producers are International Harvester, Kaiser, White Motor, and Mack. In 1964, these four companies together accounted for about 20 percent of the total number of trucks and buses produced in the United States. Truck and bus production is concentrated in Michigan, Ohio, Indiana, and New Jersey.

Six companies currently manufacture nearly all the passenger cars produced in Canada. Besides the "Big Three," these include

1/ For data on recent market growth in the United States and Canada, see table 6.

2/ Based on data compiled by the Automobile Manufacturers Association (United States) and the Motor Vehicle Manufacturers' Association (Canada).

American Motors, Studebaker, and the Swedish firm, Volvo. The assembly of Renaults and Peugeots (French makes) is scheduled to begin in Quebec in the very near future. Aside from the "Big Three," International Harvester is the only Canadian truck producer of major significance. In 1964, this company accounted for about 10 percent of total Canadian truck production. A number of smaller firms, some U.S.-owned or -controlled, make trucks and buses.

Prices of motor vehicles are higher in Canada than in the United States

All available data indicate that prices of motor vehicles are higher in Canada than in the United States. Most observers have concluded that the price differential is currently about 15 percent. The Tariff Commission does not have any information on factory dealer prices of various models of motor vehicles in the two countries. Comparisons of suggested factory retail prices do not take account of any discounts that may be available to the buyer in either country. The following tabulation, ^{1/} however, shows the approximate margins by which suggested factory retail prices in Canada exceed the corresponding U.S. prices on selected standard stripped passenger cars:

<u>Make</u>	<u>Margin (percent)</u>
Chevrolet ^{1/}	14
Oldsmobile ^{1/}	11
Buick ^{1/}	13
Falcon Std., 6-cyl. 4-dr	10
Cowab; 202, 6-cyl. 4-dr	8
Valiant ^{2/}	11
Plymouth ^{2/}	12
Dodge ^{2/}	19
Chrysler ^{2/}	22

^{1/} Lowest priced 2-door.

^{2/} Lowest priced model.

^{1/} The Financial Post (Toronto), Oct. 24, 1964.

High Canadian costs and prices of automotive products are not only a result of a limited and protected Canadian market, but they contribute to it as well. Short Canadian production runs, in an industry in which economies of scale contribute greatly to lower unit costs, are probably the primary cause of high Canadian costs (table 7). On the other hand, wage rates in Canada are lower than in the United States. In 1963, average hourly earnings ^{1/} in the U.S. motor vehicle industry came to \$3.10 per worker, whereas the comparable figure was about \$2.40 in Canada. Data on unit labor costs, however, are not readily available.

Independent parts producers ^{2/} in the United States and Canada

The number of independent concerns producing automotive parts in the United States is not susceptible to precise count--especially with regard to the broad commodity coverage contemplated by H.R. 6960. Thousands of firms supply products of wood, textiles, nonmetallic minerals, and metals to the U.S. automotive industry; many of them, however, are not classified as producers of "automotive parts" in available statistics. Further, great numbers of these firms are relatively small; sales to the automotive industry by many of them fluctuate sharply from year to year. General Motors recently stated:

^{1/} Includes overtime pay, but excludes fringe benefits and bonus payments. Based on data presented in the Statistical Abstract of the United States, 1964, and compiled by the Motor Vehicle Manufacturers' Association (Canada).

^{2/} Producers of automotive parts not owned or controlled by manufacturers of motor vehicles.

Of the thousands of suppliers with whom the Corporation did \$500 or more of business in a year, approximately 90 percent employed less than 500 people. And more than 70 percent had fewer than 100 employees. ^{1/}

In the United States, nearly ten thousand firms probably could be considered as regular suppliers to the automotive industry of products covered by H.R. 6960; ^{2/} perhaps twice this number of firms are occasional or potential suppliers. Production of automotive parts is extremely large, and such production is heavily contingent on the needs of motor vehicle manufacturers, as evidenced by the data in the following tabulation (in billions of dollars): ^{3/}

Item	Value of shipments		
	1960	1961	1962
Parts and accessories for passenger cars, trucks, and buses:			
Shipped to motor vehicle manufacturers--	10.7	9.1	11.7
Shipped to other than motor vehicle manufacturers-----	1.5	1.4	1.7

Many independent parts producers are highly dependent on orders from motor vehicle manufacturers. This is obvious in the case of firms producing chiefly items intended primarily for automotive use (e.g., axles, brake drums, mufflers, tail pipes, radiators). It is not so obvious, though perhaps equally true, among some firms

^{1/} General Motors, Selling to GM.

^{2/} Estimate based on "Buyers' Directory and Products Guide," Automotive Industries, Dec. 15, 1964, pp. 147-227.

^{3/} Bureau of the Census, Annual Survey of Manufactures 1962, p. 299. The figures given involve a substantial amount of double-counting because sub-assembly work is involved. They also include shipments by affiliates or divisions of motor vehicle manufacturing companies.

producing articles such as standard hardware, including springs (both suspension and nonsuspension) and fasteners (bolts, screws, etc.).

Production of automotive parts in the United States is heavily concentrated in the Great Lakes States. The New England and Middle Atlantic States are also significant suppliers of textile products, standard hardware, and electrical equipment for motor vehicles. Few areas of the United States today, in fact, do not supply parts or materials to the automotive industry. A number of the larger U.S. parts producers have facilities in Canada (e.g., Eaton, Borg-Warner, Stewart-Warner).

Information on Canadian automotive parts production is limited primarily to data reported by firms manufacturing metal automotive parts as their chief products. At present, approximately 140 plants are primarily engaged in the manufacture of such products (excluding facilities owned or controlled by motor vehicle manufacturers). Factory shipments by these plants, combined with similar shipments from facilities owned or controlled by motor vehicle manufacturers, amounted to \$296 million in 1960 and \$408 million in 1962. Shipments may have increased to \$650 million in 1964, because of the sharp spurt in Canadian production of complete vehicles and exports of parts. ^{1/} These shipments were in large part comprised of axles,

^{1/} Based on data reported by the Motor Vehicle Manufacturers' Association (Canada). The figures include a substantial amount of double-counting because sub-assembly work is involved; they nevertheless are indicative of the current trend.

brake drums, differentials, engines, oil filters, spark plugs, standard hardware, steering gear assemblies, and transmissions.

Automotive parts production in Canada is concentrated overwhelmingly in the Province of Ontario. Independent parts producers located there and in other provinces are highly dependent on orders from large motor vehicle manufacturers--perhaps even more so than their U.S. counterparts.

U.S.-Canadian trade in automotive products

In recent years U.S. exports of motor vehicles and parts to Canada have been many times larger than Canadian exports of such goods to the United States. Hence, the trade has resulted in a substantial export balance for the United States and, conversely, a substantial import balance for Canada. In 1962-64, the annual balance ranged between \$450 million and \$550 million.

The value of U.S. annual exports of motor vehicles and parts to Canada increased from \$387 million in 1960 to \$515 million in 1963, and then to \$622 million in 1964 (table 3). During the 1960's the United States regularly exported a considerable number of motor vehicles to Canada, but the annual number declined from 31,500 in 1960 to 10,100 in 1963, followed by an increase to about 16,200 in 1964. The bulk of U.S. exports of automotive products to Canada, however, consisted of motor vehicle parts, both for original equipment and for replacement; such exports have grown steadily. Whereas U.S. exports of parts to Canada accounted for about three-fourths

of its total exports of automotive products in 1960, the share had increased to about nine-tenths by 1964.

Canadian exports of motor vehicles and parts thereof to the United States amounted to about \$10 million annually in the early 1960's, but increased to \$34 million in 1963 and to \$89 million in 1964. Nearly all of its exports to the United States in the 1960's consisted of automotive parts, although in 1964 shipments of Studebakers materially increased the value of its exports of complete vehicles.

In recent years Canada has had an import balance of trade in motor vehicles and parts not only with the United States but also with the rest of the world. Its import balance on trade in automotive products amounted to \$600 million in 1963, which was about equal to its aggregate import balance on current account.

ECONOMIC ANALYSIS OF THE AGREEMENT
AND COLLATERAL COMMITMENTS

The agreement concerning automotive products between the United States and Canada ^{1/} was accompanied by important collateral commitments made by Canadian motor vehicle manufacturers to the Government of Canada. On January 15, 1965, the Canadian Minister of Industry described the agreement as part of "a new, far-reaching program for the Canadian automotive industry." He stated that the two main features of the program were (1) the agreement itself, which was to be signed the following day, and (2) firm assurances of increased production by the individual Canadian motor vehicle manufacturers. Because of the evident importance of these "firm assurances," an analysis of them is essential to a meaningful analysis of the agreement.

This section deals with the obligations of the United States and Canada under the automotive agreement only to the extent necessary to permit analysis of the economic effect of the agreement and collateral commitments. The terms of the agreement are also considered in the third major section of this report—the analysis of H.R. 6960.

Obligations of the United States Under the Agreement

Fundamentally, the automotive agreement obligates the United States to accord duty-free treatment to imports from Canada of motor vehicles and of parts for use as original equipment in the manufacture of motor vehicles. This obligation is limited in various respects.

^{1/} The text of the agreement is set forth in Appendix C.

First, duty-free treatment is not to apply to a number of "special-purpose" motor vehicles; these would include electric trolley buses, three-wheeled vehicles, trailers accompanying truck tractors, and motor vehicles specially constructed and equipped to perform special services or functions (such as, but not limited to, fire engines, mobile cranes, wreckers, concrete mixers, and mobile clinics, and chassis for the foregoing). ^{1/} Second, duty-free treatment is not to apply to replacement parts, but only to parts (fabricated components) for use as original equipment in the manufacture of the identified motor vehicles. Trailers, tires, and tubes are specifically excluded. Third, the products of Canada will have to meet specified content requirements in order to qualify for free entry into the United States. These requirements will set maximum limits on the permitted content of materials produced in third countries, i.e., in countries other than Canada and the United States. For any article, the measure of such content will be the percentage that the aggregate value of such imported materials contained therein ^{2/} is to the appraised customs value of the article on entry into the United States. The maximum permitted "foreign" content for various articles will be as follows:

Motor vehicles:

Until January 1, 1968-----	60 percent
January 1, 1968, and after-----	50 percent
Chassis and parts-----	50 percent

^{1/} The "motor vehicles specially constructed and equipped to perform special services or functions" are covered by item 692.15 of the Tariff Schedules of the United States.

^{2/} Canadian port of entry, exclusive of landing cost and Canadian duty.

Motor vehicles produced in Canada by the "Big Three," American Motors, and Studebaker would, of course, qualify for free entry into the United States under the above content provisions. According to some press reports, Volvos now produced in Canada would also qualify, as perhaps would the Peugeots and Renaults to be assembled in Canada in the near future. Any foreign motor vehicle producer considering the establishment of a plant in Canada to export motor vehicles duty-free to the United States would have to weigh the effects, among other factors, of the content requirements and the U.S. import duty. If the U.S. import duty should be reduced to 3-1/4 percent ad valorem on passenger cars as a result of the current negotiations under the "Kennedy round," any advantage to be gained by establishing a plant in Canada for the purpose of supplying cars to the U.S. market would appear to be small.

Obligations of Canada Under the Agreement

The automotive agreement would obligate Canada to accord duty-free treatment to imports of U.S. motor vehicles and to parts of U.S. manufacture when imported for use as original equipment in motor vehicles to be produced in Canada. The Government of Canada has already taken the action it apparently deems necessary in order to meet these obligations. On January 16, 1965, it issued two Orders-in-Council, ^{1/} both to take effect two days later. One order established limited duty-free entry of motor vehicles and original

^{1/} P.C. 1965-99 and P.C. 1965-100.

equipment parts therefor; the other established the customs regulations pertinent to the administration of these tariff provisions. The Government of Canada announced that it was taking this immediate action in order to provide continuity with "the present automotive plan" (i.e., the 1963 tariff rebate plan) and to enable Canadian producers to proceed with expansion plans. The Canadian Parliament must still approve the agreement, however, before it comes definitively into force.

Like the U.S. obligations, the obligations of Canada under the agreement to accord duty-free entry are limited in various respects. Canada will not be obliged to accord duty-free entry to a number of "special-purpose" motor vehicles, to replacement parts, or to tires and tubes.

The agreement does not contain specific content requirements that U.S. motor vehicles and original equipment parts would have to meet to qualify for free entry into Canada. On the other hand, it does restrict the right to import motor vehicles and original equipment parts into Canada free of duty to Canadian manufacturers of motor vehicles. For this purpose, the types of motor vehicles covered by the agreement are divided into three classes; namely, automobiles, buses, and specified commercial vehicles. ^{1/}

In order to obtain the right to duty-free entry into Canada for a given class of motor vehicles and original equipment parts therefor, a Canadian producer of motor vehicles of that class must meet three criteria set forth in Annex A of the agreement:

^{1/} Motor trucks, motor truck chassis, ambulances or chassis therefor, and hearses or chassis therefor.

1. The Canadian concern must have produced motor vehicles of that class in each "quarter" of the base year (i.e., the 1964 model year, ¹/_{August 1963-July 1964});

and in any subsequent model year--

2. the ratio of the "net sales value" ²/_{of the vehicles of that class produced by it to the "net sales value" of all vehicles of that class sold by it for consumption in Canada} must be at least equal to its corresponding ratio for the base year (but no less than ⁷⁵/_{to 100}); and

3. the "Canadian value added" ³/_{of the vehicles of that class produced by it} must be at least equal to the "Canadian value added" of its output of such vehicles in the base year.

A more extensive analysis of the probable effect of these provisions will be given in a later section; however, four brief comments may be helpful here. (1) The criteria would limit duty-free entry rights to presently established manufacturers of motor vehicles in Canada. The Canadian Government has reserved some rights to designate "non-qualified" producers as having rights to duty-free entry (Annex A, 3). (2) The criteria would require a producer to manufacture vehicles of a given class to qualify for free entry of motor vehicles of that class and original equipment parts therefor; another provision, however, will apparently permit the Canadian Government to designate a manufacturer of vehicles of one class to be entitled to import vehicles of another class and original equipment parts therefor (Annex A, 3).

¹/_{For convenience, the 12-month period from August 1 of one year through July 31 of the subsequent year will be referred to herein as a "model year," and the year given will be the year in which the model year terminates.}

²/_{The term "net sales value" is approximately equivalent to the manufacturer's selling price.}

³/_{The term "Canadian value added" is intended to measure the value of Canadian materials, services, labor, and capital in any article. It is about equivalent to the manufacturer's selling price less the cost of imported materials and parts contained therein.}

(3) For each of the "Big Three" producers in Canada, the base-year ratio of the "net sales value" of their automobile production to that

of their sales for consumption in Canada probably is in the neighborhood of 95 to 100. (4) The "Canadian value added" of the automotive

production by each of the "Big Three" in Canada in the base year probably was equivalent to about 60 percent of the "net sales value" of

those automobiles. This circumstance resulted from the Commonwealth content provisions of the Canadian tariff schedule which required

that about this percentage of Canadian content would have to be maintained by each to permit free entry of certain motor vehicle parts

under the Canadian tariff.

Collateral Commitments by Canadian Motor Vehicle Manufacturers to the Government of Canada

As noted earlier, both U.S. and Canadian Government officials have indicated that the automotive agreement was accompanied by a series of collateral commitments made by the individual Canadian motor vehicle producers to the Canadian Government. These commitments have been variously referred to as "agreements," "assurances," "guarantees," or "undertakings." Their terms have not been made public. The Tariff

Commission has neither seen copies of them nor been informed of the details of their content. From official and nonofficial press releases and public statements, however, it is possible to deduce the general character of such commitments.

The Canadian motor vehicle producers apparently have each made two commitments to the Canadian Government, as follows:

1. Each producer has agreed that, to the extent its annual sales of motor vehicles in Canada increase above those in the base year, it will increase the "Canadian value added" of its Canadian production by an agreed percentage. While the percentage may vary from class to class of motor vehicle, or possibly from producer to producer, it apparently averages 58 percent for all Canadian producers. Ron W. Todgham, president of Chrysler Canada Ltd., has announced that it is 60 percent for his company.

2. In addition to any increased Canadian output of motor vehicles and parts called for by the above commitment, each producer has agreed to increase his annual production of motor vehicles and parts (presumably, "Canadian value added") by a stated amount by the 1968 model year—the amounts for all companies aggregating \$241 million.

Although the above description is believed to indicate the general character of the collateral commitments, many details relating thereto are not known to the Tariff Commission. For example, the relationship between these collateral commitments and the right of a Canadian producer to enter motor vehicles and original equipment parts free of duty under the agreement is not known. Would a Canadian motor vehicle producer qualify for free-entry rights under the agreement if he met only the criteria established by the agreement and failed to meet his collateral commitments? Would the Canadian Government, in that event, attempt to require fulfillment of the collateral commitments by other approaches? It is also not known whether every Canadian motor vehicle producer has made collateral commitments.

When the Canadian Government unilaterally issued its motor vehicle tariff regulations in mid-January, it announced that 16 Canadian companies had qualified at that time for free-entry rights (Appendix F). The "Big Three," American Motors, Studebaker, and Kaiser Jeep were among them; International Harvester apparently qualified at a later date. The producers of Volvo, as well as of Renault and Peugeot, have not qualified, but may attempt to do so.

Probable Economic Effect

For purposes of economic analysis, the U.S.-Canadian automotive agreement and the collateral commitments made by the Canadian motor vehicle manufacturers must be considered together. Moreover, in the absence of detailed knowledge about the character and scope of the collateral commitments, any analysis of the probable economic effect of the agreement and collateral commitments can be made only in general terms. This circumstance might well prevail even if the terms of the collateral commitments were now available, because the economic issues involved are highly complex, and because the alternatives available to corporate management under the agreement apparently leave considerable room for discretion. Nevertheless, some observations regarding the probable economic effect of the agreement and collateral commitments can be made.

If the automotive agreement and the collateral commitments are carried out, Canadian production of automotive products will increase sharply in the 1965-68 model years. The increased output will almost

certainly occur in both the assembly of vehicles and the production of parts. By the 1968 model year, the Canadian share of North American automotive production will have grown significantly (though it will still be small), and the U.S. share will have declined commensurately. Moreover, by that model year, Canadian output--in terms of "Canadian value added"--will probably be materially larger than it would have been as a result of the pre-agreement level of Canadian tariff protection alone. On the other hand, it will perhaps not be much larger than it would have been if the 1963 Canadian tariff rebate plan had continued in force.

The "Big Three" motor vehicle producers must continue to produce in Canada at a minimum about the same number of automobiles as they sell there if they are to obtain duty-free entry rights under the agreement. Duty-free treatment is to be accorded a motor vehicle manufacturer only if the ratio of the "net sales value" of its Canadian production to that of its Canadian sales of motor vehicles in any model year is at least equal that of the base year. The official base-year ratios for Chrysler, Ford, and General Motors are not known, but most observers have judged them to be about 95 to 100. Hence, to the extent that their sales of motor vehicles in Canada increase, their assembly of motor vehicles will--at the minimum--have to increase about proportionately. Some of the smaller motor vehicle manufacturers may have had lesser ratios than 95 to 100 in the base year, but the ratio of their output to sales in model years subsequent to the base year must equal at least 75 to 100.

The Canadian motor vehicle producers appear to have assumed three obligations regarding the "Canadian value added" of their output of motor vehicles and parts. The provisions relating to these obligations have been described in the previous section of this report. Taking the industry as a whole, the Canadian motor vehicle producers appear to have agreed that the "Canadian value added" of their automotive production in the 1968 model year will be equal to that of the base year, plus an amount equal to about 60 percent of the value of their increased sales of motor vehicles in Canada, plus \$241 million. ^{1/}

The attainment of such an increase in "Canadian value added" would, of course, require a major expansion of Canadian automotive production in the immediate future. The commitment to expand annual Canadian production by \$241 million by the 1968 model year would alone require an increase of about a third over output in 1964. Then, assuming even a 5-percent annual increase in sales of motor vehicles in Canada by the Canadian producers, they would be obliged by 1968 to increase the "Canadian value added" of their annual output by approximately \$150 million. ^{2/} Taken together, the two commitments would require that the Canadian content of the automotive output by the Canadian motor vehicle producers in the 1968 model year would be about 50 percent larger than in the base year (1964).

^{1/} Equivalent to \$260 million in Canadian dollars.

^{2/} Equivalent to \$160 million in Canadian dollars.

An increase in Canadian automotive production of the magnitude set forth above would result in Canada having an increased share, and the United States a decreased share, of North American automotive production. In recent years, Canadian automotive output--"Canadian value added"--has accounted for about 4 percent of the combined U.S.-Canadian production. On the basis of conservative estimates of the growth of U.S. and Canadian automotive production through the 1968 model year and taking account of the required increase in Canadian output, the "Canadian value added" of Canada's production would account for over 6 percent of the value of North American automotive production in the 1968 model year. This objective of the agreement and the collateral commitments has been recognized by the Canadian Government. A press release by the Canadian Department of Industry states: "Whereas Canada now produces some 4.0 percent of total North American automotive production, it consumes about 7.5 percent. As a result of the new auto- motives program, Canada should be producing a substantially larger share of the total North American output by the time vehicles for the 1968 model year are on the road." ^{1/}

Assuming that Canadian import controls on motor vehicles and parts were restricted to the pre-agreement Canadian tariff provisions (i.e., assuming the absence of the automotive agreement, as well as any Canadian programs such as the 1965 tariff rebate plan), Canadian production of motor vehicles and parts in the next 3 or 4 model years

^{1/} Automotive Program Outline, News Release, Department of Industry, Ottawa, Jan. 15, 1965.

would undoubtedly increase far less than is anticipated under the automotive agreement and the collateral commitments. Under the protection afforded by the rates of duty, the "made in Canada" provisions, and the Commonwealth content requirements of the Canadian tariff, the Canadian motor vehicle industry had generally adjusted to a 60/40 ratio of "Canadian value added" to value of imported U.S. parts. By and large, nearly all of the American-type motor vehicles sold in Canada were assembled there (about 40 percent of their value being U.S. parts); few motor vehicles were exported either to the United States or other countries, and few American-type motor vehicles were imported from the United States. Canadian production of motor vehicles grew about commensurately with increased sales of American-type motor vehicles in Canada. If the tariff were to afford the only protection to the Canadian automotive industry, these circumstances would probably continue to prevail in the foreseeable future. Assuming, as earlier, that sales of American-type motor vehicles in Canada would increase by 5 percent annually between now and the 1968 model year, Canadian production of automotive products--"Canadian value added"--would probably under such tariff protection alone be roughly \$150 million larger in the 1968 model year than in the 1964 model year. Thus, the increase in "Canadian value added" that apparently will result from the automotive agreement and collateral commitments--estimated above at about \$390 million--will be 2-1/2 times that which would result from a policy of continuing the 1964 level of tariff protection alone.

A different result is obtained, however, if one were to compare the probable effect of the automotive agreement and collateral commitments on Canadian automotive production against that which was expected to occur as a result of the 1963 duty rebate plan. The rebate plan did not disturb the regular protection afforded by the Canadian tariff. Therefore, the increase in annual Canadian production from the 1964 to the 1968 model year resulting from such tariff protection would have occurred even if the rebate plan were in effect. This increase is estimated above--under stated assumptions--as roughly \$150 million. The Canadian Minister of Industry estimated that the tariff rebate plan, in the initial 3 years of its existence, would result in increased Canadian automotive production (and exports) of \$140 to \$185 million.^{1/} Taking the mid-point of this estimate, the combined effect of the two policies might have been to increase annual Canadian automotive production by about \$310 million in the period concerned. This amount would be less than that (\$390 million) roughly gauged as the effect of the automotive agreement and collateral commitments.

The Canadian motor vehicle manufacturers might by several means attain the increase in Canadian automotive output to which they would be committed by the automotive agreement and collateral commitments. The decision by each of the producers as to the means to be used will reflect an intricate complex of production, marketing, financial, institutional, governmental, and other factors. It obviously is neither feasible nor advisable to suggest here which avenues the

^{1/} Equivalent to \$150 to \$200 million in Canadian dollars.

Canadian producers (or, more realistically, the international enterprises of which they are part) will follow. In broad perspective, however, it would seem likely that a substantial share of the required increase in Canadian automotive output must be exported to foreign markets--either to the United States or third countries.

In terms of the broad perspective, the necessary increase in "Canadian value added" must be attained by one of two methods-- (1) expanding motor vehicle assembly operations or (2) expanding production of motor vehicle parts.

Some sources, notably the Bladen plan report, as well as some public comment since the U.S.-Canadian automotive agreement was announced, suggest that the Canadian motor vehicle producers can attain economies of scale about as readily in vehicle assembly as in any of the processes involved in producing motor vehicles. If true, the Canadian producers could increase the "Canadian value added" of their automotive output at the least cost disadvantage by expanding assembly operations for complete vehicles while importing parts from the United States. One independent Canadian parts producer, citing reduced orders from Chrysler of Canada, has stated that this is what the "Big Three" intend to do. ^{1/} Under the agreement, the "Big Three" are required, of course, to assemble in Canada about the equivalent number of cars that they sell there, and the "Canadian value added" of the assembly operation is needed to count toward their commitment to maintain the same

^{1/} The Canadian parts producer is Ingersoll Machine and Tool Co., a manufacturer of steering gear assemblies. Toronto Star, Mar. 10, 1965; The Globe & Mail (Toronto), Mar. 24, 1965.

absolute amount of "Canadian value added" as in the base year plus the equivalent of 60 percent of the value of any increased sales of motor vehicles in Canada. Hence, if they choose to expand vehicle assembly operations in Canada to meet the other "Canadian value added" commitments, the assembled vehicles would have to be exported. Indeed, recent press reports indicate that Ford has actually begun to export cars to the United States and that Chrysler is planning to do so. But such exportation of vehicles may well raise pricing problems. The companies could scarcely sell vehicles to dealers in the United States or other foreign countries (at least outside the Commonwealth) at Canadian prices, for similar vehicles would be available from the United States at lower prices. But if they exported at the equivalent of the U.S. price, which would be lower than the price in Canada, the antidumping laws of the respective countries might come into play. In this context, it may be noted that on April 7, 1965, the Prime Minister of Canada announced that he would investigate reports that Canadian-built cars are being sold for less in the United States than in Canada. ^{1/}

If the Canadian companies choose to attain the necessary increase in "Canadian value added" by expanding their production of motor vehicle parts in Canada, the parts produced must either replace imported parts in Canadian motor vehicles or be exported, largely to the United States. In unit cost, Canadian motor vehicle production has been burdened by the Canadian tariff's Commonwealth content requirement, which has necessitated extensive use of Canadian parts that were higher cost than

^{1/} The Washington Post, Apr. 8, 1965.

imported U.S. parts. The "Canadian value added" requirements of the agreement in effect continue the tariff's content requirements. The parts and assemblies that are now imported from the United States probably are those in which Canadian producers have the greatest cost disadvantage relative to the United States. Hence, a replacement of these imported parts by newly produced Canadian parts would serve to increase the cost of Canadian motor vehicles, already high relative to U.S. costs. Therefore, the Canadian producer presumably would seek to produce parts that it could export. From the standpoint of the "Big Three" and others as international enterprises, however, it would probably matter little whether a high-cost Canadian part (which had to be produced to meet "Canadian value added" commitments) replaced a U.S. part in an automobile assembled in Canada or one assembled in the United States. The necessity for using the high-cost part would increase the international concern's costs, which up to a point, it should be noted, would be offset by the savings in U.S. and Canadian import duties accorded by the agreement. The "rationalization" of U.S. and Canadian parts production, by introducing economies of scale in the Canadian production, would reduce Canadian costs, and might in time result in a narrowing of the margin between U.S. and Canadian motor vehicle prices. Whether or not it accords with the economies of rationalization, however, the agreement and collateral commitments require that an increased share of North American automotive production be in Canada.

ANALYSIS OF H.R. 6960

Proclaiming Authority

Basic authority

Motor vehicles and original motor-vehicle equipment.--The bill is directed primarily toward the implementation of the U.S.-Canadian automotive agreement under the terms of which duty-free treatment is to be accorded to certain motor vehicles and original motor-vehicle equipment, if Canadian articles. This implementing authority is set forth in section 201, subsection (a), which authorizes the President to proclaim the modifications of the Tariff Schedules of the United States (TSUS) provided for in title IV of the bill. These modifications constitute all the changes presently believed to be required to carry out the agreement. To take into account possible oversight and future developments, however, subsection (b) of section 201 authorizes the President to proclaim further modifications of the TSUS to provide for the duty-free treatment of any Canadian article "if he determines that such article is actually or potentially of commercial significance as an article imported for use as original motor-vehicle equipment * * * and that such duty-free treatment is required to carry out the agreement".

Proclaiming authority to put into effect other automotive agreements that may be entered into by the President is contained in section 202(a).^{1/} This section authorizes the President, following the conclu-

^{1/} The agreements could include, if desired, a further agreement with Canada.

sion of an agreement providing "for the mutual elimination of the duties applicable to those products of [the contracting parties] which are motor vehicles and fabricated components intended for use as original equipment in the manufacture of such vehicles"; to proclaim such modifications of the TSUS as he determines to be required to carry out such agreement. This authority would apparently be compatible with Article V of the agreement with Canada which provides that "access to the United States and Canadian markets provided for under this Agreement may by agreement be accorded on similar terms to other countries".^{1/} So far as the Tariff Commission is aware, there are no immediate plans to enter into any such agreement. At the present time, no manufacturing facilities have been established in the United States for the production of motor vehicles of the types produced in foreign countries other than Canada. Therefore, the duty-free treatment of motor-vehicle components shipped from such countries to the United States would not apply to components for their motor vehicles--unless such vehicles were to be produced in this country--but would be limited to components to be used as original equipment of cars manufactured by U.S. companies.

^{1/} Article V is ambiguously worded. A reasonable interpretation would appear to be that each government is agreeing that duty-free treatment such as is accorded by each Government under the agreement would be accorded to automotive products of any other country only by agreement with such country on a reciprocal basis. Apparently, however, the Canadian Government has taken a different view inasmuch as it appears that their Order in Council P.C. 1965-99 unilaterally accorded most-favored-nation treatment to other countries.

Replacement parts.--Section 202(b) of the bill authorizes the President also to proclaim such modifications of the TBSU as he determines to be required to carry out agreements providing for the mutual reduction or elimination of the duties applicable to "automotive products other than motor vehicles and fabricated components intended for use as original equipment in the manufacture of such vehicles". However, before any such modifications could be made by the President, he would have to enter into an agreement with such country providing for the duty-free importation of motor vehicles and fabricated components intended for use as original equipment in the manufacture of such vehicles (sections 201 and 202(a)).

General limitations on authority

The proclaiming authority set forth in section 202 is predicated upon the negotiation of agreements providing for the mutual elimination or reduction of duties. The time within which such authority is to be exercised by the President is without limitation. Nor is there any requirement specified with respect to the inclusion in such agreements of provisions for termination or withdrawal. In addition, the President's authority is not limited to carrying out agreements with non-Communist countries.

As with the U.S.-Canadian automotive agreement, any other agreement entered into by the President with respect to motor vehicles and original automotive equipment must provide for duty-free treatment of such articles,^{1/} as lesser reductions in duty rates are not authorized.

^{1/} The scope of such agreements apparently need not be the same as that of the Canadian agreement.

On the other hand, agreements entered into pursuant to section 202(b) with respect to replacement parts may provide for the reduction or elimination of the applicable duties and, in the absence of requirements to the contrary, such reductions, as well as eliminations of, duties could presumably be staged, i.e., the total reduction could be accomplished by increments over a period of time. The Commission does not know whether the terms "mutual reduction or elimination of the duties" in section 202(b) or "mutual elimination of the duties" in section 202(a) contemplate that like products of each country be treated identically.

The term "automotive products" in section 202(b) is not defined. It is specifically limited to products "other than motor vehicles and fabricated components intended for use as original equipment in the manufacture of such vehicles". Thus, by implication the term seems to cover fabricated components intended for installation in motor vehicles subsequent to their manufacture whether as replacements parts or otherwise. As will be explained subsequently in this report, the broad scope of the Canadian agreement was achievable only by adaptation of the actual use approach to classification, i.e., following the goods into consumption. This classification approach imposes heavy burdens on customs administrative officers, importers, and others. Further, it would not be practicable to apply the "actual use" technique to all "nonoriginal" components.

As previously stated, the President is authorized to carry out an agreement on "nonoriginal" automotive products only after an earlier agreement has been concluded with the country concerned on motor vehicles and original equipment therefor. Presumably this requirement is aimed at achieving an across-the-board complementary action so that motor vehicles, original components therefor, and "nonoriginal" components will be uniformly treated. However, under the bill it would be possible to satisfy this prerequisite with only a "token" agreement pursuant to section 202(a), and a subsequent agreement pursuant to section 202(b) for duty reductions or eliminations on wholly dissimilar articles.

Comparison with other trade-agreement authority^{1/}

The form of the present agreement, as an executive agreement requiring subsequent implementing legislation by the Congress, differs from the past practices followed by the United States with regard to trade agreements involving tariff changes. Apparently, the only prior exception was an executive agreement concluded with Canada in 1911.

The trade agreements concluded in accordance with the 1934 Trade Agreements Act and some of the trade agreements concluded before 1934 were implemented by the President pursuant to circumscribed authority obtained from Congress prior to the conclusion of such agreements. The remainder of the pre-1934 agreements, except for the aforementioned 1911 agreement with Canada, were concluded in the form of treaties,

^{1/} See Appendix G for a brief history of prior trade agreements entered into by the United States involving tariff concessions.

requiring ratification by the Senate and subsequent implementing legislation by the Congress. Although a substantial number of such treaties were negotiated, most of them were not ratified and thus did not come into force.

Relationship to the GATT and other trade agreements

The 1965 U.S.-Canadian automotive agreement and the proposed implementing legislation also differ from the multilateral and unconditional most-favored-nation policies that the United States has pursued since the end of World War II. Moreover, the provisions in the proposed legislation, which would require that similar agreements be entered into with third countries before the automotive products of such countries could be granted duty-free treatment, are not in accord with our unconditional most-favored-nation obligations in the GATT, as well as in our bilateral agreements presently in force.

The trade agreements that the United States entered into before 1923 contained (with only three exceptions) conditional rather than unconditional pledges on the part of this country. That is, the United States agreed to grant most-favored-nation treatment in exchange for some specific concession to be received from the other contracting party. But in 1923 the United States abandoned this policy, and its trade agreements from that year until the present have contained unconditional most-favored-nation clauses. Under these clauses, the lowest rates of duty which the United States has applied to the products

of any foreign country^{1/} have had to be extended to the products of countries with which we have had such most-favored-nation commitments. In addition, by virtue of the provision in the Trade Agreements Act of 1934 for the generalization of trade-agreement rates of duty, and a similar provision in the Trade Expansion Act of 1962, these rates of duty have also been applied to the products of all other countries, with the exception, since the early 1950s, of products of countries designated by the President as Communist-dominated or Communist-controlled.

As a result, the United States tariff since the end of World War II has been essentially a single-column tariff with regard to products from non-Communist-controlled or -dominated countries. Many of the preferential rates that were formerly applicable to Cuban products under the 1934 agreement with that country were eliminated when the United States became a contracting party to the GATT. Moreover, the preferential rates that are presently specified in the United States tariff for various Cuban products have been suspended since May 24, 1962. Preferential rates are applied to most Philippine articles, but these preferences have been and will become progressively smaller until 1974 when they are scheduled to be eliminated.

At the present time, the United States has unconditional most-favored-nation commitments to the more than 60 contracting parties to the GATT and to the contracting parties to its 4 remaining non-

^{1/} Except products of Cuba and the Philippines, for which preferences have been authorized in agreements with other countries.

preferential bilateral agreements (vis., Switzerland, Venezuela, Argentina, and Iceland). Unless we obtain a waiver of our commitments under the GATT and the aforementioned bilateral agreements, the application of duty-free treatment to only Canadian automotive products would constitute a violation of such commitments, as well as a violation of the provisions of our trade agreements with the Philippines.^{1/} There is an embargo on trade with Cuba, so our trade relations with that country would not immediately be in question.

Implementation of the U.S.-Canadian Automotive Agreement

The primary purposes of the bill is to provide for the implementation of the U.S.-Canadian automotive agreement by the United States. Under Article II(b) of the agreement, the President has agreed that he will seek, during the 1st session of the 89th Congress, the enactment of legislation authorizing duty-free treatment of imports of the products of Canada described in Annex B. Inasmuch as it was anticipated that the Government of Canada--on the basis of its obligations under

^{1/} Through a technical oversight, H.R. 6960 in its present form would result in the extension of such duty-free treatment to Philippine automotive products. In accordance with General Headnote 3(c) to the TSUS, Philippine article are subject, unless otherwise specified in the TSUS, to rates of duty which result from the application of certain percentages to the "most favorable" rates of duty (including preferential rates of duty) contained in the TSUS. Consequently, if Canadian automotive products are exempted from duty, such Philippine products would likewise be so exempted. Since it was apparently the intention in drafting H.R. 6960 to exempt from duty only Canadian automotive products, provision will have to be made in the bill for an amendment to General Headnote 3(c) so as to prevent the extension of duty-free treatment to such Philippine products.

Article II(a)--would immediately provide for the duty-free treatment of the articles described in Annex A, the President also agreed to seek authority permitting duty-free treatment retroactively to the earliest date administratively possible "following the date upon which the Government of Canada has accorded duty-free treatment". Canadian Order-in-Council P.C. 1965-99 of January 16, 1965, became effective on January 18, 1965. Thus, the President's obligation under the agreement is to seek authority to implement retroactively to the earliest date possible following January 18, 1965, rather than January 17 as provided in section 203 of the bill.^{1/}

Scope of the Agreement

Unlike the reciprocity concept embodied in the trade agreements which have been concluded pursuant to delegated legislative authority and which most often involved exchanges of concessions on dissimilar products, the reciprocity here involved is with respect to like products of the two countries. Thus, with certain significant differences which will be discussed below, the duty-free concessions accorded by Canada parallel those which are to be accorded by the United States under the agreement.

Imports into Canada --Although Order-in-Council P.C. 1965-99 does not on its face specifically state that it was issued to implement the agreement, the terms of the order and of the agreement describing the goods as to which duty-free entry is to be accorded are almost identical.

^{1/} Section 203 authorizes reliquidation of entries covering imports admitted prior to the implementing proclamation of the President, but only upon request therefor filed with the customs officer concerned on or before the 90th day after the date of such proclamation and subject to such other conditions as the President may specify.

The Order accords duty-free entry to 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":

- (1) Automobiles, buses, and specified commercial vehicles,^{1/}
- (2) All parts of such motor vehicles 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).

1/ These terms are defined as follows in the agreement:

"Automobile" means a four-wheeled passenger automobile having a seating capacity for not more than ten persons.

"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.

"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.

The foregoing definitions from the agreement are identical with those promulgated in Order-in-Council P.C. 1965-99 except for certain variations in the definitions of "specified commercial vehicle" the implications of which are not known to the Commission.

The foregoing motor vehicles are entitled to duty-free admission only "when imported by" the respective manufacturers of each such class of vehicles. All components imported must be "for use as original equipment" in Canada by a manufacturer of automobiles, buses, or specified commercial vehicles, respectively.

Not every producer in Canada of automobiles, buses, or specified commercial vehicles is a "manufacturer" entitled to the benefits of duty-free treatment. For the purposes of the agreement and Order-in-Council P.C. 1965-99, the term "manufacturer" is a very complex, narrowly defined term of art meaning--

- a "manufacturer" that
- (i) produced vehicles of that class [i.e., "automobiles," "buses," or "specified commercial vehicles"] in Canada in each of the four consecutive three months' periods in the base year, 1/ 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,

1/ The "base year" is defined both in the agreement and Order-in-Council P.C. 1965-99 as--
 and "the period of twelve months commencing on the 1st day of August, 1963 and ending the 31st day of July, 1964".
 This base year corresponds with the 1964 model year for United States and Canadian motor vehicles.

(A) the ratio of the net sales value $\frac{1}{100}$ 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 $\frac{1}{100}$ 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."

Under the Agreement (Annex A, 3), the Canadian Government may designate a manufacturer not within the foregoing definition as being entitled to the benefits of the duty-free treatment provided for. So far as the Tariff Commission is aware, the Canadian Government has thus far made no such designations.

1/ Under the provisions of the Agreement, the meanings to be ascribed to the terms "net sales value" and "Canadian value added" are left wholly within the discretion of the Governor-in-Council of Canada acting under the broad authority granted to him by section 273 of the Customs Act. The definitions of such terms were promulgated by Order-in-Council P.C. 1965-100 effective January 18, 1965, and are very long and complex (see Appendix E). However, simply stated, "net sales value" is approximately equivalent to the manufacturer's selling price; and "Canadian value added" is intended to measure the value of Canadian materials, services, labor, and capital in any article, and is approximately equivalent to the manufacturer's selling price less the cost of imported materials and parts contained therein.

Imports into the United States.--Section 201 of the bill would authorize the President to proclaim the modifications of the TSUS provided for in title IV of the bill and such other modifications as he may subsequently determine to be required to carry out the Canadian automotive agreement.

The Tariff Commission furnished technical assistance to the negotiators in drafting the provisions of Annex B of the agreement which sets forth a description of the products of Canada to be accorded preferential duty-free treatment by the United States, and in drafting the provisions of title IV of the bill setting forth the requisite modifications of the TSUS to carry out the agreement. The tariff structures of Canada and the United States are different, and the objective of the negotiators was to provide in the respective Annexes A and B parallel product coverage except with respect to variations in certain of the conditions which were to be prerequisite to duty-free treatment. Thus, the products described in Annex B are approximately the same as the products described in Annex A.^{1/} The vehicles covered by Annex B are included in items 692.05 and 692.10 of the TSUS and the fabricated components intended for use as original motor-vehicle equipment are provided for in numerous tariff items of the TSUS.

^{1/} On further examination of the Canadian description in Annex A, the Commission is of the view that the U.S. obligations in Annex B are somewhat broader in that, unlike the obligations of the Canadian Government, they would include certain amphibious vehicles, half- and full-tracked vehicles, and other nonwheeled vehicles such as ski-mobiles.

A motor vehicle--if a "Canadian article" as defined in Annex B of the agreement--would be entitled to free admission into the United States regardless of who imported it and whether it was new or used, whereas, as previously noted, motor vehicles the product of the United States can be imported into Canada free of duty under Annex A only by a "manufacturer" of the particular class of vehicles involved.

Enforcement of the agreement

The free entry arrangements for both Canada and the United States involve the "actual use" concept of tariff classification which imposes considerable procedural burdens on customs officers, manufacturers, and other interested persons. Under this concept, customs officers in Canada are required to follow the vehicles and "original" components into consumption in Canada; and customs officers in the United States will be required to follow the "original" components into consumption in the United States. In addition, the duty-free arrangements in Canada require Canadian manufacturers to maintain elaborate records and to furnish reports to the Canadian Government with respect to their production and sales.

The United States has never previously undertaken the administration of a tariff program of this magnitude involving the "actual use" concept. General headnote 10(e) of the TSUS provides in part as follows:

(e) in the absence of special language or context which otherwise requires--

(1) a tariff classification controlled by the actual use to which an imported article is put in the United States is satisfied only if such use is intended at the time of importation, the article is so used, and proof thereof is furnished within 3 years after the date the article is entered.

In an effort to avoid the large volume of paperwork which is involved in proving actual use, one of the proposed provisions in title IV of the bill sets forth a variation of this concept which would not require motor-vehicle manufacturers to furnish proof of actual use in the case of each article imported. As a substitute for proof, an enforcement provision is included which would provide for forfeiture of the articles if the articles were diverted from their intended use as original motor-vehicle equipment. This forfeiture provision is included in section 404 of the bill as proposed headnote 2(d) to subpart B of part 6 of the TSUS.

The Commission is concerned about the inclusion of the words "letter of intent" in the proposed headnote 2(a) (Section 404 of the bill). As the Commission understands it, a letter of intent does not have the status of a contract and imposes no legal obligations on the manufacturers. Thus, it apparently would permit U.S. parts producers to inventory an article, speculating that such article will subsequently be purchased by the motor-vehicle manufacturer for use as original equipment. It is the Tariff Commission's view that, if this is the correct interpretation of the term "letter of intent", the inclusion of this term in the proposed headnote is not compatible with the doctrine of actual use as embodied in Annex B of the agreement and in domestic tariff law.

In any event, the objectives underlying the adoption of the "actual use" tariff classification concept (or the variation thereof provided for in the bill) cannot be achieved unless the motor-vehicle

and parts producers, foreign shippers, importers, subcontractors, and all other persons involved in the particular transactions fully understand their obligations thereunder and work in good faith to achieve the desired ends.

Other provisions of the agreement

" Unlike other bilateral agreements and the GATT to which the United States has been or is a party, the agreement with Canada contains no specific provisions in the form of a national security clause, or clause providing for the imposition of special dumping or countervailing duties or for the imposition of a duty equivalent to the internal tax imposed on a like domestic article.^{1/}

The automotive agreement with Canada apparently seeks by way of reference to Part II of the GATT to incorporate in effect such provisions. Article III of the Canadian agreement provides that 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.

Since Part II of the GATT contains a national security provision (Article XXI), a provision relating to national treatment with regard to taxes (Article III), and countervailing and dumping duty provisions (Article VI), it would appear that as much leeway, if not more, is permitted the United States with regard to such matters as is permitted

^{1/} Likewise, the Canadian automotive agreement contains no specific escape clause, such as Article XIX of the GATT. For a discussion of this question, see pages 50-52.

it under its bilateral agreements. Our present commitments under the GATT are, by virtue of the Protocol of Provisional Application, to apply Part II to the fullest extent not inconsistent with legislation existing on January 1, 1948. In view of the scope of such GATT provisions and our provisional commitment thereto, there would not appear to be any question as to the compatibility of domestic national security, dumping, countervailing,^{1/} or taxation legislation, in existence on January 1, 1948 or subsequent thereto, with comparable provisions in the GATT. In this connection, it is assumed that Article I of the U.S.-Canadian automotive agreement which provides that--

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

would not militate against this conclusion.^{2/}

^{1/} It will be noted that section 303, Tariff Act of 1930, makes provision for the assessment of countervailing duties only with respect to articles which are "dutiable under this Act". Presumably, therefore, the enactment of H.R. 6960, as presently drafted, would remove any possibility of this section's applicability to Canadian articles accorded preferential duty-free treatment pursuant to the agreement.

^{2/} It may be of interest to note that Part II of the GATT does not specifically set forth all the substantive rules governing trade between the contracting parties. Paragraph 1 of Article XXIX in Part III of the GATT incorporates by reference certain provisions of the Havana Charter, including, for example, Article 52 thereof which states that--

No act or omission to act on the part of the Organization shall preclude any Member from enforcing any national statute or decree directed towards preventing monopoly or restraint of trade.

It is not clear what effect, if any, Article I or Article III of the U.S.-Canadian automotive agreement may have on the antitrust laws of the United States.

The Canadian automotive agreement contains several provisions that relate largely to the duration of the agreement and to future consultations between the two Governments. The agreement is to be of unlimited duration, although each Government will have the right to terminate it on 12 months' written notice (Article VII). At the request of either Government, the two Governments must consult at any time with respect to any matter relating to the agreement (Article IV(a)). Although this consultation provision would seem to be all-inclusive, two other consultation provisions are set forth. The first requires the two Governments, at the request of either, to consult respecting problems concerning automotive producers in the United States which do not at present have facilities in Canada for the manufacture of motor vehicles, and concerning the implications for the operation of the agreement of new automotive producers becoming established in Canada (Article IV(b)). The former part of this provision might relate, for example, to Checker Motors which produces motor vehicles in the United States but does not have manufacturing facilities in Canada; the latter part of the provision might relate to relatively new or prospective Canadian facilities for the production of Volvos, Renaults, and Peugeots. Neither the particular "problems" or "implications" that might touch off such consultations, nor the anticipated "problems" or "implications" that persuaded the negotiators to include this special consultation provision, are known to the Tariff Commission. The second consultation provision specifies that the two Governments shall jointly undertake a comprehensive

review of the operation of the agreement and the progress made toward attaining its objectives no later than January 1, 1968 (Article IV(c)).

Tariff Adjustment and Other
Adjustment Assistance

Tariff adjustment

Section 301 of the bill provides that a petition may be filed for tariff adjustment under title III of the Trade Expansion Act of 1962 (TEA) as though the reduction or elimination of a duty proclaimed by the President pursuant to section 201 or 202 of the bill were a concession granted under a trade agreement. Thus, upon proper petition filed with the Tariff Commission under subsection (a)(1) of section 301 of the TEA, the Commission would promptly make an investigation under subsection (b)(1) thereof--

To determine whether, as a result in major part of concessions granted under trade agreements [i.e., the Canadian agreement or other agreements proclaimed pursuant to the authority provided for in section 201 or 202 of the bill], an article is being imported into the United States in such increased quantities as to cause, or threaten to cause, serious injury to the domestic industry producing an article which is like or directly competitive with the imported article.

The tariff adjustment provisions of the TEA set forth the domestic procedures for determining whether the President should invoke the "escape clause" of a trade agreement which permits a tariff concession to be modified or suspended for such time and to such extent as may be

necessary to prevent or remedy serious injury.^{1/} In the Commission's view, some doubt exists as to whether the Canadian agreement contains such an escape-clause provision. Article III of the agreement, which provides that--

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--

would not seem to be such a provision. Although Part II of the GATT includes its "escape clause" (Article XIX), this permissive provision applies only to the GATT, and actions taken by the United States "consistent with its obligations" thereunder could affect only tariff concessions granted in the GATT. The preferential tariff concessions in the Canadian agreement are wholly outside the framework of the GATT.

^{1/} The most important of these escape clauses is Article XIX of the GATT, which provides in pertinent part as follows:

If, as a result of unforeseen developments and of the effect of the obligations incurred by a contracting party under this Agreement, including tariff concessions, any product is being imported into the territory of that contracting party in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers in that territory of like or directly competitive products, the contracting party shall be free, in respect of such product, and to the extent and for such time as may be necessary to prevent or remedy such injury, to suspend the obligation in whole or in part or to withdraw or modify the concession.

Accordingly, it would appear that any tariff adjustment under the escape-clause procedures provided for in section 301 of the TEA would violate the U.S.-Canadian automotive agreement.

In view of the fact that the Canadian agreement and the other agreements contemplated by the bill are preferential and bilateral in nature, the Tariff Commission's investigation would be concerned only with the impact of imports of the particular article which had been accorded preferential tariff treatment pursuant to such an agreement. The application of the tariff adjustment provisions of the TEA as a basis for affording relief from increased imports resulting in major part from preferential tariff concessions granted to one country raises certain problems. One such problem concerns the quantum of relief which can be afforded. Is the permissible relief limited to restoration of the most-favored-nation tariff treatment for the article in question? If it is not, it must be borne in mind that the alternative would be a higher than MFN (i.e., a discriminatory) tariff treatment for the article previously accorded preferential treatment. Such an action, however would--for example, with respect to Canada--give rise to a violation of the MFN concessions granted by the United States to it as a contracting party to the GATT.

If the collateral agreements between the manufacturers and the Canadian Government should contribute more than the preferential U.S. tariff concessions to increasing U.S. imports of Canadian articles, it would not be possible to find under section 301(b)(1) of the TEA

that increased imports of a Canadian article resulted "in major part" from the preferential tariff concession thereon in the agreement.

Adjustment assistance for firms and workers^{1/}

Section 301 of the bill, in addition to making provision for tariff adjustment, provides also that petitions may be filed for a determination of eligibility to apply for adjustment assistance under title III of the TEA as though the reduction or elimination of a duty proclaimed by the President pursuant to section 201 or 202 of the bill were a concession granted under a trade agreement. Thus, upon proper petition filed with the Tariff Commission under subsection (a)(2) of section 301 of the TEA, the Commission would promptly make an investigation under subsection (c)(1) thereof, in the case of a petition by a firm--

to determine whether, as a result in major part of concessions granted under trade agreements, 2/ an article like or directly competitive with an article produced by the firm is being imported into the United States in such increased quantities as to cause, or threaten to cause, serious injury to such firm

or under subsection (c)(2) thereof, in the case of a petition by a group of workers--

to determine whether, as a result in major part of concessions granted under trade agreements, 2/ an article like or directly competitive with an article produced by such workers' firm, or an

1/ The provisions of section 301 of the bill applicable to adjustment assistance for firms and workers would not apply during the transitional period which ends June 30, 1968. During that period the remedies provided in section 302, hereinafter discussed, would be applicable.

2/ That is, the Canadian agreement or other agreements proclaimed pursuant to the authority provided for in section 201 or 202 of the bill.

appropriate subdivision thereof, is being imported into the United States in such increased quantities as to cause, or threaten to cause, unemployment or underemployment of a significant number or proportion of the workers of such firm or subdivision.

In past reports of investigations made under the provisions of subsection (c)(1) or subsection (c)(2), the Commission has interpreted the law to require that the term "in major part" in such provisions has the same meaning as it does in the like parallel provisions of subsection (b)(1) of section 301 relating to tariff adjustment. Thus, both the tariff adjustment and the adjustment assistant petitions for firms and workers are subject to the same causation criteria.

The Tariff Commission's observation made elsewhere in this report with respect to the probable effects of the collateral agreements between the manufacturers and the Canadian Government on a petition for tariff adjustment is equally relevant in regard to firm and worker petitions:

"Transitional" assistance for firms and workers.--Section 302 of the bill provides that--

After the thirtieth day after the enactment of this Act and before July 1, 1968, a petition for a determination of eligibility to apply for adjustment assistance under section 301 of this Act may be filed with the President. 1/

1/ Section 302(1) of the bill provides that--

The President is authorized to exercise any of his functions under this section through such agency or other instrumentality of the United States Government as he may direct and in conformity with such rules and regulations as he may prescribe.

The petition may be filed by--

- (1) a firm which produces an automotive product, 1/ or its representative, or
- (2) a group of workers in a firm which produces an automotive product, or their certified or recognized union or other duly authorized representative.

This transitional arrangement makes two changes from the TEA: it vests the investigative authority with the President rather than the Tariff Commission and changes the criteria. Of these two, the latter seems to the Commission to have by far the greater significance. While the former does raise several technical problems, which will be discussed below, it does not appear to the Commission to involve matters of the long-range importance of the changes in the criteria.

The provisions of the proposed special authority are much more detailed and elaborate than the regular assistance provisions presently administered by the Tariff Commission. Comparison is therefore difficult, but it is believed that the provisions of subsections (b), (c),

1/ Section 302(m)(1) of the bill defines the term "automotive product" for the purposes of that section to mean: "a motor vehicle or a fabricated component to be used as original equipment in the manufacture of motor vehicles".

and (d) of section 302 of the bill, which provisions contain the essence of the special authority, can be restated with little or no impairment, as follows:

() After a petition is filed by a firm or group of workers under subsection (a), the President shall promptly make an investigation to determine--

(1) whether dislocation of the firm or group of workers has occurred or threatens to occur; and, if so,

(2) whether the operation of the Agreement has been the primary factor in causing or threatening to cause such dislocation.

If the President makes such affirmative determinations, he shall promptly certify that the firm or group of workers is eligible to apply for adjustment assistance.

In context with the foregoing, the term "dislocation" which is defined in section 302(m)(2) of the bill is a substitute for and the equivalent of the "serious injury" and "unemployment or underemployment" concepts of the regular adjustment assistance provisions.^{1/}

1/ Section 302(m)(2) of the bill provides:

(2) The term "dislocation" means:

(A) in the case of a firm, injury to the firm, which may be evidenced by such conditions as idling of productive facilities, inability to operate at a level of reasonable profit, or unemployment or underemployment, and which is of a serious nature; and

(B) in the case of a group of workers, unemployment or underemployment of a significant number or proportion of the workers of a firm or an appropriate subdivision thereof.

The last sentence of section 301(c)(1), TEA, and section 301(c)(3) thereof provide, respectively, as follows:

*** In making its determination under this paragraph, the Tariff Commission shall take into account all economic factors which it considers relevant, including idling of productive facilities of the firm, inability of the firm to operate at a level of reasonable profit, and unemployment or underemployment in the firm.

(3) For purposes of paragraphs (1) and (2), increased imports shall be considered to cause, or threaten to cause, serious injury to a firm or unemployment or underemployment, as the case may be, when the Tariff Commission finds that such increased imports have been the major factor in causing, or threatening to cause, such injury or unemployment or underemployment.

However, in the proposed provisions, unlike the corresponding regular provisions of the TEA, increased imports need not be "the major factor" in causing or threatening to cause such dislocation. Indeed, under the proposed criteria, imports would not even have to be a causative factor at all.

The most important concept in the proposed special authority is the term "operation of the Agreement"^{1/} which, as defined in section 302(m)(4) of the bill--

includes governmental or private actions in the United States or Canada directly related to the conclusion or implementation of the Agreement.

The Commission does not know the full implications of this very broad concept. Under this, any one or combination of a number of factors may be relevant, such as the removal of the Canadian duty, the collateral agreements between the manufacturers and the Canadian Government, the removal of the U.S. duties, managerial decisions of domestic or foreign producers, and possibly other governmental or private actions already taken but unknown or to be taken in the future. This broad criteria is further relaxed by the requirement that the "operation of the Agreement" need only be "the primary factor" in causing or threatening to cause dislocation to the firm or group of workers. The substitution of this term for "the major factor" in the regular

^{1/} In the definition of "operation of the Agreement" in the bill, the word "Agreement" is capitalized. However, elsewhere in the bill the word is used in the defined term twice without capitalization and once capitalized. It will be noted that in section 102 of the bill it is stated that the U.S.-Canadian automotive agreement is "(hereinafter referred to as "the agreement")".

provisions is presumably designed to introduce a plurality requirement into the special authority in lieu of the more stringent requirement that is presently in force.

It has been previously indicated that a petition for adjustment assistance under the "transitional" authority may be filed by a firm which produces an "automotive product" or a group of workers in such a firm, and that the term "automotive product" for such purposes means "a motor vehicle or a fabricated component to be used as original equipment in the manufacture of motor vehicles". It appears quite conceivable that "dislocation" might occur or be threatened to a firm that merely produces replacement automotive parts or to a group of workers in such a firm, and that the "operation of the Agreement" might be "the primary factor" in causing or threatening to cause such dislocation. If such a situation did develop, the only recourse to be had by such firm or group of workers would be to petition the Commission under the regular adjustment-assistance authority, and such recourse would fail if the dislocation flowed from the private agreements rather than from the rate change.

Procedural provisions for "transitional" period.--The procedures in subsections (e) through (1) of section 302 for obtaining preferential adjustment assistance during the transitional period, as they relate to petitions, petitioners, public hearings, length of investigations, reports of the results of investigations, and the termination

of adjustment assistance, are largely identical to the procedures followed under the Trade Expansion Act. However, some differences are noted below.

Subsection (i) authorizes retroactive trade readjustment allowances for workers whose dislocation occurred prior to the enactment of the bill as a result of the operation of the agreement. The Trade Expansion Act was only prospective in authorizing trade readjustment allowances as the allowances were applicable only in those circumstances of unemployment which began after the 30th day after the date of enactment of that Act. The policy considerations for preferential retroactive readjustment allowances in the case of articles covered by the bill are not clear. The retroactivity apparently is intended to cover any dislocation occasioned by the earlier implementation of the agreement by the Canadian Government and the accompanying agreements between the manufacturers and the Canadian Government.

Subsection (j) contains the compulsive powers given to the President to obtain information relating to matters pertinent to an investigation. The Tariff Commission's subpoena powers under section 333 of the Tariff Act of 1930, which are employed by the Commission in tariff adjustment and adjustment-assistance investigations under the Trade Expansion Act, are more extensive than those powers set forth in subsection (j). For example, the bill does not authorize the summoning of witnesses, an authority which may prove invaluable in

an investigation under the provisions of the bill. Subsection (j) might be simplified by merely authorizing the President to exercise the compulsive powers given to the Commission in section 333 in any investigation made under section 302 of the bill.

Subsection (k), relating to the disclosure of confidential information secured during an investigation under section 302 of the bill, differs in one respect from the practice under the Trade Expansion Act. Under the present law, business-confidential information is never disclosed because it is "in the interest of the public". Moreover, section 1905 of the Criminal Code now precludes such disclosures.

The provisions of subsection (k) are different from any provisions with which the Commission is familiar. Such limited research as the Commission has been able to do discloses no equivalent provision in existing law. The Commission finds difficulty in interpreting the meaning and projecting possible ramifications of subsection (k). Although section 333 of the Tariff Act of 1930 does not have provisions such as those proposed, the Commission as a matter of policy does not make such disclosures and has successfully resisted all attempts of enforcement agencies to obtain company data submitted in confidence to the Commission.

Adjustment assistance related to other agreements. Section 202 of the bill provides that the President may enter into an additional bilateral agreement with any foreign country providing for the mutual elimination of the duties applicable to certain automotive products

of the respective countries. The tariff adjustment and other adjustment assistance provisions of sections 301 and 302 would automatically be available to domestic firms and workers should economic dislocation result from implementing such a bilateral agreement. However, section 303 would require the President to recommend any legislative changes concerning adjustment assistance to firms and workers that he deems appropriate to the Congress at least 3 months before he proclaims any bilateral agreement entered into pursuant to section 202. His required recommendations are limited to a consideration of the assistance that should be afforded because of the anticipated economic dislocation that may result from the new bilateral agreement.

Miscellaneous Provisions of H.R. 6960

Sections 101, 102, 304, 501, 502, and 503 relate to the title of the proposed Act, its purposes, appropriations, delegative authority, annual reports to the Congress, and a saving clause, respectively, and are self-explanatory.

APPENDIX A

Statistical Tables

Table 1: Estimated composition in 1964 of U.S. imports from Canada of passenger cars, trucks, buses, and parts thereof for items covered by H.R. 6960

(In U.S. dollars)

<u>Passenger cars, trucks, and buses:</u>		
Complete passenger cars-----	1/	\$18,500,000
Complete trucks and buses-----	2/	3,470,000
Bodies and chassis for the foregoing-----		1,070,000
Subtotal-----		<u>23,040,000</u>
<u>Parts for the foregoing:</u>		
Parts, n.o.s. (transmissions, wheels, brake drums, bumpers, radiators, mufflers, tail pipes, steering gear assemblies, etc.).		25,000,000
Engines, other than diesel-----		13,500,000
Parts for engines other than diesel (pistons, cylinder heads, crankshaft assemblies, connec- ting rods, valve springs, etc.).		12,400,000
Standard hardware:		
Springs for suspension-----		4,600,000
Other springs-----		1,000,000
Other standard hardware (washers, hinges, locks, nuts, bolts, screws, rivets, etc.).		1,000,000
Electrical equipment (starting and ignition equipment, batteries, radios and parts thereof, signalling apparatus, etc.).		2,500,000
Miscellaneous machinery and mechanical equipment (pumps, hoists, winches, etc.).		1,000,000
Other manufactures of metal-----		2,000,000
Manufactures of wood, textiles, glass, rubber and plastic.		1,000,000
Subtotal-----		<u>64,000,000</u>
Grand total-----		<u>87,040,000</u>

1/ This figure exceeds the amount reported in official U.S. import statistics by about US\$9 million. Official U.S. import statistics on complete passenger cars for 1964 are understated due to the fact that large amounts of such imports were commingled with other imports for statistical purposes and reported under "Articles Exported and Returned" (having been advanced in value abroad) in Schedule 8 of the Tariff Schedules of the United States.

2/ This figure exceeds comparable Canadian export figures by about US\$3.2 million, since it includes snowmobiles and jeeps, which are not counted as "passenger cars" in U.S. import statistics.

Source: Estimates by the staff of the U.S. Tariff Commission. Based on most recent official figures compiled by the U.S. Department of Commerce.

Table 2.--Estimated U.S. imports from Canada of selected parts ^{1/} for passenger cars, trucks, and buses, 1960-64

(In millions of U.S. dollars)

Description	1960	1961	1962	1963	1964
Parts, n.e.s (transmissions, wheels, brake drums, bumpers, radiators, mufflers, tail pipes, steering gear assemblies, etc.)-----					25.0
Engines, other than diesel-----					13.5
Parts for engines other than diesel (pistons, cylinder heads, crankshaft assemblies, connecting rods, valve springs, etc.)-----	9.7	6.9	8.4	23.9	12.4
Springs for suspension-----					4.6
Total-----	9.7	6.9	8.4	23.9	^{2/} 55.5

^{1/} Selected on the basis of the most comparable data available and for product classifications covering over 80 percent of U.S. imports of Canadian motor vehicle parts in recent years.

^{2/} Total for 1964 not precisely comparable to totals for 1960-63 since it does not include as many different categories of parts.

Source: Estimates based on official statistics compiled by the U.S. Department of Commerce.

Table 3.—U.S. exports of automotive products to Canada, 1960-64

Product description	(In U.S. dollars)				
	1960	1961	1962	1963	1964
Passenger car and chassis, new	63,721,852	44,776,459	49,552,451	26,691,022	45,214,441
Passenger car and chassis, used	129,011	373,608	614,007	194,104	220,692
Trucks, buses and chassis, new	25,101,576	20,769,244	16,661,881	13,594,989	12,181,219
Trucks, buses and chassis, used ^{1/}	399,973	443,352	820,462	1,191,644	1,023,673
Engines:					
Diesel, truck and bus, for assembly	57,226	197,527	441,623	1,718,190	1,621,926
Gasoline, truck and bus, for assembly	1,653,395	791,986	1,253,525	1,999,754	2,400,362
Passenger car, for assembly	1,148,656	4,604,411	7,994,201	7,538,953	8,768,732
Diesel, for replacement	796,299	778,840	1,218,844	409,326	1,827,400
Gasoline, for replacement	499,732	599,624	598,761	691,696	660,580
Parts and accessories:					
Bodies (truck, bus, and car) ^{2/}	1,079,297	2,295,364	2,147,874	2,093,246	2,384,208
Leaf springs ^{3/}	59,235	5,813	25,292	28,256	63,615
Shock absorbers and parts ^{3/}	885,206	651,233	679,176	520,570	657,982
Heaters, air conditioners, and parts	658,048	533,845	450,704	447,444	667,487
Automobile radio receiving sets	422,023	685,768	461,863	267,712	475,869
Spark plugs ^{4/}	457,343	303,594	267,137	342,458	341,378
Starting, lighting, ignition equipment ^{5/}	11,880,635	11,577,849	17,444,818	20,218,810	23,696,806
Batteries, storage—6 and 12 V. ^{6/}	309,673	304,477	303,770	164,750	245,088
Clutch facings and brake linings	1,521,239	1,287,570	1,534,505	1,920,875	2,006,479
Fan belts, automotive	156,732	169,558	185,355	283,239	233,355
Parts for assembly	193,870,183	195,776,777	269,041,242	343,109,784	415,239,095
Parts for replacement	73,051,870	67,716,356	79,208,878	86,910,344	96,063,549
Accessories and parts, n.e.c.	4,031,346	3,554,875	3,818,593	5,144,564	5,555,810
Total	386,890,550	358,200,130	454,725,012	515,481,740	621,549,716

^{1/} Includes used special purpose vehicles as well.^{2/} For assembly only.^{3/} For replacement only.^{4/} Includes plugs for tractors and industrial engines as well.^{5/} Includes equipment for tractors and industrial engines as well.^{6/} Includes aircraft and radio batteries of 6 and 12 volts.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 4.—Motor vehicles and parts: Imports into Canada from the United States, 1960-63 and January-October 1963 and January-October 1964

(In thousands of U.S. dollars)

Description	1960	1961	1962	1963	January-October	
					1963	1964
Motor vehicles:						
Automobiles, freight; chassis for same—	17,856	17,311	14,114	11,760	9,710	9,806
Automobiles, passenger; chassis for same—	65,524	47,358	50,817	26,544	18,499	29,208
Motor omnibuses, electric trolley buses, 1/ chassis, and complete parts—	6,288	2,499	2,245	726	603	610
Total, motor vehicles	89,668	67,168	67,176	39,030	28,812	39,624
Parts of motor vehicles:						
Motor vehicle engines and parts therefor—	37,534	39,277	58,653	74,492	60,537	73,805
Other parts—	300,852	294,286	364,611	450,910	362,124	444,515
Total, parts of motor vehicles	338,386	333,563	423,264	525,402	422,661	485,866
Grand total	1,228,054	1,000,731	1,090,440	964,432	711,473	825,490

1/ Not to be covered by the U.S.-Canadian automotive agreement.

Source: Compiled from statistics of Dominion Bureau of Statistics.

Table 5.--Exports from Canada to the United States of motor vehicles and parts, 1961-64

(In thousands of U.S. dollars)

Description	1961	1962	1963	1964
Motor vehicles:				
Passenger automobiles and chassis-----	395	301	592	19,300
Trucks and chassis, commercial, m.g.v.w. not over 6,000 lbs----	12	26	32	10
Trucks and chassis, commercial, n.e.s. and truck trailers-----	29	29	147	226
Road motor vehicles, n.e.s. and motor axles 1/-----	1,668	2,278	2,760	4,512
Total, motor vehicles-----	2,104	2,634	3,531	24,048
Parts of motor vehicles:				
Road motor vehicle engines and parts-----	5,383	4,473	11,370	23,478
Road motor vehicle accessories, parts, and assemblies, n.e.s.---	3,257	4,970	18,352	41,810
Asbestos brake linings and clutch facings-----	42	41	574	23
Spark plugs and parts-----	2	46	4	2
Total, parts of motor vehicles-----	8,684	9,490	30,300	65,313
Grand total-----	10,788	12,124	33,831	89,361

1/ Certain special-purpose vehicles (e.g., fire engines, mobile cranes) not to be covered by the U.S.-Canadian automotive agreement are classified hereunder. Such vehicles may account for as much as 40 percent of the trade values shown.

Source: Compiled from statistics of Dominion Bureau of Statistics.

Table 6.--The market for motor vehicles in the United States and Canada, 1955-64

Year	United States ^{1/}		Canada ^{2/}	
	Passenger cars	Trucks	Passenger cars	Trucks and buses
1955-----	7,169,908	957,001	386,962	78,716
1956-----	5,955,248	894,366	408,233	91,688
1957-----	5,982,342	858,085	382,023	76,276
1958-----	4,654,514	726,704	376,723	68,046
1959-----	6,041,275	942,133	425,038	77,588
1960-----	6,576,650	943,485	447,771	75,417
1961-----	5,854,747	918,627	437,319	74,160
1962-----	6,938,863	1,068,725	502,565	82,645
1963-----	7,556,717	1,244,224	557,787	97,202
1964-----	8,065,150	1,361,772	^{3/} 631,342	^{3/} 109,600

^{1/} Based on new registrations. See "Source" below.

^{2/} Based on reported retail sales.

^{3/} Preliminary.

Source: U.S. figures compiled by R.L. Polk and Co. and reprinted in annual statistical issues of Automotive Industries, R.L. Polk and Co. reserves all rights, and re-use of any of this material is prohibited. Canadian figures compiled by the Motor Vehicle Manufacturers' Association of Canada.

Table 7: Production of selected passenger car lines in the United States and Canada, 1964

Company and make	United States	Canada
Chrysler:		
Chrysler	131,129	15,712
Dodge	280,409	28,621
Plymouth	274,689	23,466
Valiant	225,245	36,935
Ford:		
Fairlane	277,586	21,084
Falcon	317,435	13,796
Comet	189,936	20,465
General Motors:		
Chevrolet, Chevy II, Corvair,		
Chevelle	2,304,519	113,298
Acadian		15,502
Pontiac	480,135	82,522
Oldsmobile	368,494	19,362
Buick	325,978	15,782

Source: Based on statistics compiled by the Automobile Manufacturers' Association (United States) and the Motor Vehicle Manufacturers' Association (Canada).

Note.--U.S.- and Canadian-made cars often differ, even though bearing the same "make" name.

APPENDIX B

Countervailing Duties
Section 303, Tariff Act of 1930
(46 Stat. 687, 19 U.S.C. 1303)

Whenever any country, dependency, colony, province or other political subdivision of government, person, partnership, association, cartel, or corporation shall pay or bestow, directly or indirectly, any bounty or grant upon the manufacture or production or export of any article or merchandise manufactured or produced in such country, dependency, colony, province, or other political subdivision of government, and such article or merchandise is dutiable under the provisions of this chapter, then upon the importation of any such article or merchandise into the United States, whether the same shall be imported directly from the country of production or otherwise, and whether such article or merchandise is imported in the same condition as when exported from the country of production or has been changed in condition by remanufacture or otherwise, there shall be levied and paid, in all such cases, in addition to the duties otherwise imposed by this chapter, an additional duty equal to the net amount of such bounty or grant, however the same be paid or bestowed. The Secretary of the Treasury shall from time to time ascertain and determine, or estimate, the net amount of each such bounty or grant, and shall declare the net amount so determined or estimated. The Secretary of the Treasury shall make all regulations he may deem necessary for the identification of such articles and merchandise and for the assessment and collection of such additional duties.

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APPENDIX C

**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

APPENDIX C

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

APPENDIX C

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:
POUR LE GOUVERNEMENT DES ETATS-UNIS D'AMERIQUE:

/s/ Lyndon B. Johnson
/s/ Dean Rusk

FOR THE GOVERNMENT OF CANADA:
POUR LE GOUVERNEMENT DU CANADA:

/s/ Lester B. Pearson
/s/ Paul Martin

ANNEX A

IV ANNEX A

This Agreement shall have force provisionally on the date of its signature and definitively on the date which notices are exchanged between the two Governments giving notice that ratification or accession has been completed.

ANNEX A

APPENDIX O

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
 - (1) 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

APPENDIX C

- (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

APPENDIX C

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 customs 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.

* * *

APPENDIX D

JANUARY 27, 1966
No. 2

THE CANADA GAZETTE PART II
VOLUME 99

SOR/65
42

SOR/65-42

CUSTOMS TARIFF.**Motor Vehicles Tariff Order 1965.**

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".

APPENDIX D

JANUARY 27, 1963
 No. 2

THE CANADA GAZETTE PART II
 VOLUME 69

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MOTOR VEHICLES TARIFF ORDER, 1963.

1. The rates of Customs duties on the following goods imported into Canada on or after January 18, 1963 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:

Description of Goods	Rate
(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	Free

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

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- (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 (e) 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

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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, 1966, after January 18, 1966, 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.

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Les dispositions de l'annexe E ont été adoptées par le Parlement canadien en vertu de l'article 91 de la Loi sur le Règlement en Conseil. Elles ont été publiées dans le Canada Gazette, Partie II, le 27 janvier 1966, à la page 462.

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CUSTOMS ACT.

Tariff Item 950 Regulations.

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 (c) 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.

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REGULATIONS RESPECTING THE ENTRY OF MOTOR VEHICLES
UNDER THE MOTOR VEHICLES TARIFF ORDER, 1963.*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, 1963*, 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 480 Regulations* or *Tariff Item 488 (d) and 488 (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 non-production 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).

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- (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 non-permanent 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 five per cent 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.

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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

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- (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 costs 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 the amount referred to in clause (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 per cent 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, 1966, such reports as may be required by those Ministers respecting the production and sale by the manufacturer of vehicles and parts thereof.

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Schedule.

DECLARATION OF MANUFACTURER UNDER TARIFF ITEM 950.

DECLARATION.

Canada, do hereby declare that I am the ... 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, 1966, to July 31, 1967, 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, 1966, to July 31, 1967, 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, 1966, to July 31, 1967, 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 ... 1966

Witness: (signed)

APPENDIX F

Minister of Finance

ADMINISTRATION OF THE MOTOR VEHICLES TARIFF ORDER 1965 AND REGULATIONS

1. The respective tariff designations under the Order are 930(1), 930(2), 930(3), 930(4), 930(5) and 930(6). These tariff items and regulations come into effect on 18th January 1965.
2. To be entitled to duty free entry under these tariff items:
 - (a) automobiles, buses and specified commercial vehicles
 - (i) must be imported by a manufacturer of the vehicle in question, and
 - (ii) must be entered on the prescribed entry form;
 - (b) parts, accessories and parts thereof
 - (i) may be imported by a manufacturer of the vehicle in question, by a parts manufacturer or by suppliers to a manufacturer;
 - (ii) must be for use as original equipment in vehicles produced in Canada by a manufacturer of such vehicles, and
 - (iii) must be entered on the prescribed entry form.

Note: Until otherwise determined, end-use certificates will not be required at time of importation.

3. The entry prescribed by the Minister, pursuant to section 124 of the Customs Act and the Motor Vehicles Tariff Order 1965, is the regular B 1 Entry Form issued in a pink colour with the word "Special" indicated thereon in the upper left-hand corner.

Until such time as the special entry form has been printed, the regular B 1 Entry Form may be accepted, provided that the word "Special" is typed, stamped or over-printed in the upper left-hand corner of all copies thereof. It is expected that the special entry form will be in general use by 1st May, 1965.

The B 1 Special should be submitted in triplicate, as in the case of regular entries.

4. In accordance with the requirements of section 105(1) of the Customs Act, goods claimed to be exempt from duty under tariff item 930 must, in the entry thereof, be described and set forth in the words by which they are described in the applicable part of the item.

5. While it is preferable to restrict the use of the B 1 Special entry form to goods cleared under tariff item 930, other goods covered by the same invoice, but not qualifying under the item, may also be cleared on the same entry form, if desired.

6. Parts, accessories and parts thereof, imported for repair or replacement purposes, are not entitled to entry under tariff item 930. Warranty parts are considered as replacement parts. Materials also do not qualify for entry under the item.

7. Goods released on Form C 9 prior to 18th January, 1965 may not be entered under tariff item 930. Goods released on Form C 9 and goods taken out of warehouse, on and after 18th January, 1965 may be entered under tariff item 930, if otherwise qualified.

8. The valuation provisions of the Customs Act and the special duty provisions of the Customs Tariff Act will apply in the regular way to goods for which entry is claimed free of duty under tariff item 930.

9. Goods which have been entered other than under tariff item 930 may not subsequently be reclassified for entry under tariff item 930.

10. Goods imported or taken out of warehouse on and after 18th January, 1965 may not be entered under the Automotive Order in Council P.C. 1963-1/1544, dated 22nd October, 1963, which has been superseded by the Motor Vehicles Tariff Order 1965.

11. The vehicle producers listed in Appendix A have submitted the required declaration and are considered as manufacturers within the meaning of tariff item 930. As other manufacturers submit the declaration, their names will be announced.

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12. Importers are required to file amending entries periodically in respect of parts, and accessories and parts thereof entered under tariff item 950 which are subsequently transferred from original equipment to repair or replacement use.

13. In respect of goods qualifying for entry under tariff item 950, taxes imposed under the Excise Tax Act, when applicable, are to be computed on the value for duty, that is, the value for Customs entry purposes, as in the case of other free goods.

Raymond C. Leborgne

Raymond C. Leborgne,
Deputy Minister of National Revenue,
Customs and Excise.

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File 7743

(16/49)

ROGER GUNDEL, P.M.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

APPENDIX F

APPENDIX I TO MEMORANDUM D-49-30

Name and Location	Considered as manufacturers of
American Motors (Canada) Limited, Brampton, Ontario.	Automobiles
Canadian Blue Bird Coach Ltd., Drummondville, Ontario.	Buses
Canadian Kenworth Ltd., Burnaby, B. C.	Specified Commercial Vehicles
Chrysler Canada Ltd., Windsor, Ontario.	Automobiles and Specified Commercial Vehicles
Crane Carrier Canada Limited, Toronto, Ontario.	Specified Commercial Vehicles
Ford Motor Company of Canada, Limited, Oakville, Ontario.	Automobiles, Buses and Specified Commercial Vehicles
Freightliner of Canada Limited, Burnaby, B. C.	Specified Commercial Vehicles
F W O Corporation (Canada) Ltd., Kitchener, Ontario.	Specified Commercial Vehicles
General Motors of Canada, Limited, Oshawa, Ontario.	Automobiles, Buses and Specified Commercial Vehicles
Hayes Manufacturing Co. Ltd., Vancouver, B. C.	Specified Commercial Vehicles
Kaiser Jeep of Canada Limited, Windsor, Ontario.	Automobiles and Specified Commercial Vehicles
Prevost Car Inc., Ste. Claire (Dorchester Co.), Quebec.	Buses
Sicard Inc., Montreal, Quebec.	Specified Commercial Vehicles
Studebaker of Canada, Limited, Hamilton, Ontario.	Automobiles
Van-Wilson Limited, Burlington, Ontario.	Buses and Specified Commercial Vehicles
Western Flyer Coach (1964) Ltd., Winnipeg, Manitoba.	Buses

APPENDIX G

Brief History of Prior U.S. Trade Agreements

Involving Tariff Concessions

The first reciprocal trade treaty negotiated by the United States was with the German Zollverein (Customs Union) in 1844. It did not become effective because of the failure to receive Senate ratification. The first United States reciprocal trade treaty to become effective was with Canada. That agreement was negotiated by the President, ratified by the Senate, and implementing legislation was passed by the Congress. It became effective in 1855 and remained in force until 1866, when it was terminated by the United States.^{1/}

Reciprocity treaties were negotiated with Hawaii, one in 1855 and a second in 1867, but neither of these received the necessary Senate ratification. In 1875, however, a reciprocity treaty with Hawaii was negotiated and ratified. In the following year, the Congress passed the legislation necessary for putting it into effect. The treaty remained in force until Hawaii was annexed by the United States in 1898.

Reciprocity treaties were negotiated with Mexico in 1859, with Canada in 1875 and 1888, and with Newfoundland in 1868, but all these failed to receive the necessary Senate ratification.

^{1/} This agreement, like those subsequently entered into with Hawaii and Cuba, was preferential.

In 1890 Congress passed a tariff act which authorized the President to suspend the duty-free treatment and impose specified duties on sugar, molasses, coffee, tea, and raw hides imported from countries that discriminated in their tariff treatment against products from the United States. This authority resulted in the negotiation of a number of reciprocal trade agreements in which the United States undertook to continue to apply duty-free treatment to such products. Agreements were concluded with the following countries:

Austria-Hungary	Great Britain (for	Honduras
Brazil	British West India	Nicaragua
Dominican Republic	Colonies)	Salvador
German Empire	Guatemala	Spain (for Cuba
		and Puerto Rico)

In some of these agreements the other contracting party agreed to admit specified imports from the United States free of duty or at substantially reduced tariff rates; in others it agreed to extend most-favored-nation treatment regarding tariffs to all imports from the United States.^{1/}

The special duties provided for in section 3 of the act of 1890 were applied to imports from Colombia, Venezuela, and Haiti, following failure of these states to respond favorably to the United States invitation to negotiate an agreement.

The next series of reciprocal trade agreements and treaties was negotiated in accordance with sections 3 and 4, respectively, of the

^{1/} The Tariff Act of 1894, which imposed a duty on sugar and molasses, abrogated in effect the agreements that were concluded in accordance with the Tariff Act of 1890. There was no reciprocity provision contained in the 1894 Act.

Tariff Act of 1897. Section 3 of that act authorized the President to proclaim prescribed trade-agreement reductions in the duties on argols, distilled spirits, sparkling wine, still wine, paintings, drawings, and sculptures in return for concessions by the other parties to such agreements. Agreements were concluded with the following countries:

Bulgaria	Great Britain	Portugal
France	Italy	Spain
German Empire	The Netherlands	Switzerland

Section 4 of the Tariff Act of 1897 provided generally that the President could proclaim a 20-percent reduction in import duties following the conclusion of treaties providing for such a reduction and the ratification and approval of the treaties by the Senate and Congress. In accordance with section 4, the President negotiated treaties with the countries named below, but none of these treaties was ratified by the Senate:

Argentina	France
Denmark (for St. Croix)	Great Britain (for various colonies)
Dominican Republic	Nicaragua
Ecuador	

In 1902, a trade convention was negotiated with Cuba. This convention provided generally for a reduction of 20 percent in the United States duties on imports from Cuba and reductions of 20 to 40 percent in the Cuban duties on imports from the United States. In 1903 the convention was ratified, and implementing legislation was passed by Congress. Although the Tariff Act of 1897 was in effect at the time of

the conclusion of the convention, no mention was made in the implementing legislation to section 4 of that act.

The Tariff Act of 1909 not only provided for terminating all outstanding reciprocity agreements concluded in accordance with section 3 of the Tariff Act of 1897, but it also instituted a two-schedule tariff system. Under this system the free list and the rates in the general schedule constituted the minimum schedule; and the "minimum" rates plus 25 percent of the values of the imported articles constituted the maximum schedule. The President was authorized to extend the minimum schedule to countries which did not discriminate against the United States; the maximum rates were applicable to imports from all other sources. The Tariff Board, which had been created for this purpose under authority of the act itself, was required to investigate the tariff treatment accorded American products by foreign countries. Discrimination by several of them was discovered and negotiations with them were subsequently entered into for the purpose of eliminating the discrimination. Following these negotiations, proclamations were made applying the minimum rates. The maximum rates were, in fact, never applied to imports from any country, notwithstanding that certain countries -- notably Germany and France -- did not extend full equality of treatment to imports from the United States.

In 1911, a different procedure than that heretofore described was followed in concluding a trade agreement with Canada. The agreement,

like the 1965 automobile agreement between the United States and Canada, was in the form of an executive agreement and constituted in essence a commitment by the two countries to seek the passage of legislation authorizing the putting into effect of the duty-free or reduced-duty treatment specified for the rather wide range of articles set forth in the agreement. Implementing legislation was passed in 1911 by the United States Congress, but the agreement was not approved by the Canadian Parliament and, as a result, did not go into effect.

The Tariff Act of 1913 contained no provision for maximum and minimum schedules of duties, but it authorized the President to negotiate reciprocity agreements provided "That said trade agreements before becoming operative shall be submitted to the Congress of the United States for ratification or rejection." No agreements, however, were negotiated by the President.

None of the subsequent general tariff acts contained provisions relating to the negotiation of trade agreements until the Trade Agreements Act of 1934 added section 350 to the Tariff Act of 1930. The trade agreements that were next concluded by the United States were in accordance with that section.

Beginning in 1934, the President proceeded to apply the provisions of the Trade Agreements Act by negotiating a number of bilateral trade agreements. From 1934 through 1947 the United States concluded 32 separate bilateral trade agreements with 28 different countries.

Import duties were substantially reduced by the President on a wide range of products pursuant to the authority granted him under the Trade Agreements Act and the amendments and extensions of such authority. Moreover, in accordance with the provision in the Trade Agreements Act for the extension of unconditional most-favored-nation treatment, these reduced duties, except for those accorded Cuban and Philippine products, were applied to the products of all foreign countries.

Following World War II, the United States conducted its trade-agreement negotiations primarily within a multilateral framework rather than a bilateral framework. On October 30, 1947, it became a signatory to the General Agreement on Tariffs and Trade (GATT), which it proceeded to apply provisionally as from January 1, 1948. At the same time it terminated or suspended its bilateral agreements with those countries that were also contracting parties to the GATT. From 1948 to 1962 a series of multilateral tariff negotiations was concluded by the United States within the framework of the GATT and pursuant to the authority contained in the Trade Agreements Act of 1934, as amended and extended. A few bilateral trade agreements outside of the framework of the GATT were also concluded by the United States during this period, but these agreements were supplementary agreements with countries with which bilateral agreements were still in effect. The general policy of the United States was away from bilateralism and toward multilateralism, and as a result various bilateral trade

agreements with countries that were not contracting parties to the GATT were also terminated. Preferential relations were continued with Cuba within the framework of the GATT and the 1934 bilateral agreement with Cuba, as supplemented, and with the Philippines under various acts and pursuant to trade agreements concluded pursuant to some of these acts.

In 1962 the Trade Agreements Act was replaced by the Trade Expansion Act of that year, which continued with modifications the President's trade agreements authority under the earlier act. Although virtually no agreements have been concluded and implemented under the authority contained in that act, negotiations are presently in progress with the other contracting parties to the GATT.

The United States was an active participant in the preparation of the Agreement for Facilitating the International Circulation of Visual and Auditory Materials of an Educational, Scientific and Cultural Character, approved at Beirut in 1948, and the Agreement on the Importation of Educational, Scientific and Cultural Materials, approved at Florence in 1950. The Senate gave its advice and consent to the ratification of these agreements on May 26, 1960 and Febru-

ary 23, 1960, respectively. However, instruments of ratification have not been deposited by the United States in either case because of the technical difficulties that have been encountered in efforts to draft implementing legislation that properly reflects the intent of each agreement.

The Committee for the Organization of Economic Cooperation and Development (OECD) is currently in the process of preparing a draft agreement on the importation of educational, scientific and cultural materials. The United States is participating in the work of the Committee and is expected to deposit its instrument of ratification of the Agreement on the Importation of Educational, Scientific and Cultural Materials in the near future.

Senator LONG. I believe, Mr. Shewmaker, you do not have a prepared statement, but came to answer such questions as the committee wanted to ask you.

**STATEMENT OF RUSSELL N. SHEWMAKER, GENERAL COUNSEL;
ACCOMPANIED BY G. PATRICK HENRY, ECONOMIST, U.S. TARIFF
COMMISSION**

Mr. SHEWMAKER. Yes, sir.

Senator LONG. And Senator Gore would like to ask some questions. Would you care to make an opening statement?

Mr. SHEWMAKER. I would like to make a brief introductory statement.

Senator LONG. Yes.

Mr. SHEWMAKER. Since this is a record proceeding, we believe that it is desirable that the Tariff Commission's role in matters of this kind be set forth in the record.

The Tariff Commission is an independent agency said to be quasi-legislative in character. We, in effect, act as a legislative arm preparing reports for the committees and furnishing technical assistance to the committees of the Congress.

We also have a responsibility under our statute to do the same thing for the executive branch.

We take pride in and zealously strive to maintain our status as an independent agency, furnishing objective, factfinding reports and economic analyses on trade matters to the committees and to the President. Indeed, in connection with this particular matter before the committee at this time, we have functioned for both the executive and for the Congress.

We assisted the executive in the technical drafting of Annex B of the agreement; that is, the part relating to the U.S. tariff concessions. We assisted the executive, also, in the technical drafting of the bill introduced as H.R. 6960, particularly, again, that part of it relating to the implementation of this agreement in the tariff schedules; that is, title 4 of the bill.

Insofar as the Congress is concerned, upon request from each of the committees, we have again responded with reports to the Ways and Means Committee on H.R. 6960, and to the Senate Finance Committee on the ultimate bill, H.R. 9042.

One final statement here. The Tariff Commission is a multiheaded agency, and I think the committee, of course, appreciates the difficulty of any staff member or even a Commissioner himself, speaking extemporaneously for the Commission. We will, however, to the extent of our ability, answer questions and do what ever we can to assist the committee in connection with this matter now before it.

Senator LONG. Let me just ask you one or two questions. I don't have many.

Are you familiar with the statement made yesterday by Mr. Merlyn Trued, Assistant Secretary for International Affairs of the Treasury Department?

Mr. SHEWMAKER. We were here when he submitted that. With respect to balance of payments.

Senator LONG. Do you have a copy of it?

I believe that in his statement he was working from approximately the same figures that you are working from, and here is what his figures indicated: That projecting what would happen under this agreement from model year 1964 in Canada you would have about \$1,543 million of total sales and Canadian value added would be about \$962 million and a net U.S. surplus in automobiles and products of \$581.1 million.

Projecting this ahead, they estimate in 1968 you would have about \$2,090 million and Canadian value added of \$1,510 million, which would give you a trade surplus of the United States of about \$580 million. Is that about what your studies indicate?

Mr. HENRY. Yes, sir; we would have no major difference with these figures.

Senator LONG. As I understand it, you added an addendum to the report to this committee in which you estimated that it would work out just about the same way if you proceed under the arrangement existing prior to this agreement. I was looking at page 24 of your report where you say:

By model year 1968 Canadian output in terms of Canadian value added will probably be materially larger than it would have been as a result of the pre-agreement level of Canadian tariff protection alone. On the other hand, it will perhaps not be much larger than it would have been if the 1963 Canadian rebate plan had continued in force.

Mr. HENRY. Mr. Chairman, in terms of Mr. Trued's figures, the U.S. net surplus in automotive products trade with Canada which he shows if Canada had continued its tariff protection including the Commonwealth content provisions—

Senator GORE. Are you including the remission plan?

Mr. HENRY. No; not at this point. If Canada had continued its tariff protection, including the Commonwealth content, the U.S. surplus in trade with Canada in 1968 would be materially larger than \$580 million because under that plan the Canadian value added would be substantially smaller than the \$1,510 million which he shows here. If they had continued with their tariff remission plan, which, of course, was based upon and placed—

Senator GORE. Could we have, as nearly as possible, the estimated surplus as we go along?

Mr. HENRY. Yes.

Senator GORE. You just stated that had the existing custom tariff situation prevailing before the rebate remission scheme was instituted continued, then the surplus would have been larger. Could you give us your estimate there?

Mr. HENRY. Yes, sir; I think the difference would have been about the amount which the Canadian automobile companies have committed themselves to in absolute terms in the collateral letters of undertaking; that is, \$240 million. If Mr. Trued's figures are in Canadian dollars, it would be about \$260 million. So that the U.S. net surplus on that basis would have been \$840 million.

I think, also, according to our analysis, if Canada had continued its tariff remission plan which was placed on top of the tariff protection and the Commonwealth content provisions of the tariff—and I may say that for the effect of this in our record we relied on the estimates of the Canadian Government itself as to what effect that plan

would have that the U.S. net surplus in automotive products trade with Canada would also have been substantially larger than this—no, I am sorry, might not have been much larger than this because under the remission plan they were encouraging exports to the United States and a higher Canadian production. On this, I don't have an estimated figure, but it would be somewhere between the \$580 and \$840 million, but perhaps closer to \$580 million.

Senator LONG: Well, now, can you tell me whether on balance Canada has a trade surplus or trade deficit?

Mr. HENRY: In trade, merchandise trade?

Senator LONG: Yes.

Mr. HENRY: They have a surplus, I believe.

Senator LONG: They have a surplus in merchandise trade?

Mr. HENRY: I believe so, in merchandise trade. If you restrict it just to merchandise trade and all I happen to have here are the 1960 figures.

Senator LONG: 1960?

Mr. HENRY: Excuse me, 1963 figures, they have a surplus of exports over imports.

Senator LONG: How do they stand in balance of payments?

Mr. HENRY: Well, this would balance. They have an outflow of payments, so in common terms they would have a deficit in the balance of payments.

Senator LONG: To what extent?

Mr. HENRY: In 1963, \$557 million.

Senator LONG: Canada is only about 10 percent the size of the United States. If you roughly translated their deficit into 10 times the size, we would get, let's say, a \$5 or \$6 billion balance-of-payments deficit.

Mr. HENRY: Yes, sir; if you assume that, in our balance of payments it would be 10 times larger.

Senator LONG: It is a serious problem, isn't it, that needs to be corrected?

Mr. HENRY: Yes, sir.

Senator LONG: You are, no doubt, familiar with some of the things we have been doing in correcting our balance of payments. Do we have a right, for example, to curtail some of these items that are coming in?

Mr. HENRY: Yes.

Senator LONG: We have taken measures from time to time to protect American commodities for industry which is being injured and we thought they had a claim. Are you familiar with the impediments that some other competitors have placed on imports of automobiles?

Mr. HENRY: Yes, I heard them in the testimony.

Senator LONG: You don't have any direct knowledge other than the testimony here?

Mr. HENRY: No, sir; not any substantial direct knowledge.

Senator LONG: What I want to know is does Canada, with a heavy imbalance of payments, have the right to place additional burden on trade moving into Canada; that is, imports moving into Canada?

Mr. HENRY: It partly depends, I think, on what you mean by "does Canada have the right?"

At the Torquay negotiations under the General Agreements on Tariff and Trade, Canada granted the U.S. trade agreements con-

cessions on automobiles. If they worsened—the conditions of trade between the United States and Canada on the automotive trade—I think, probably, they would be inconsistent with the undertakings which they made in the Torquay negotiations. I would agree with you as a sovereign nation they have the power to do that, but they did have some obligations to the United States under international commitments which they would have to take into consideration before they made their decision as to what they would do.

Senator LONG. I was looking at the Canadian balance and we have a favorable balance with Canada of about \$1,183 million in trade, don't we?

Mr. HENRY. In trade? I am sorry, I don't have those figures with me, Mr. Chairman, but I am sure that is right.

Senator LONG. Those are the figures I looked at last night.

Now, there is \$1,183 million favorable balance, and Canada has a deficit against the world by about 50 percent of that amount.

Now, if she is going to correct her balance of payments, would not it stand to reason she would do something about those items which are causing the heavy deficit? What are these items, specifically?

Could you name them? Well, just look at the list; here they are: road motor vehicles and parts—that would include automobiles in 1964—\$593 million from the United States, \$64 million shipped to us; electrical machinery, \$291 million; \$70 million shipped toward us; machinery for special industry and not elsewhere classified, \$588 million, \$57 million shipped toward us.

There is a 10-to-1 advantage there. Agricultural machinery, \$304 million, \$145 million shipped to the United States; aluminum, \$31 million—that is one of their surplus items, aluminum, they shipped that toward us.

Now, it would seem to me if she is trying to correct that imbalance—and it lies mainly with the United States—those are the items the flow of which she would have to correct.

I assume if we feel she is moving to make trade more burdensome, we have a right to restrict her imports toward us, and that would look to me as though it would be aluminum, of which we shipped them \$31 million and they shipped us \$112 million.

Petroleum and petroleum crude and partly refined, we shipped them zero, they shipped us \$268 million.

Paper and paperboard, we ship them \$47 million; they shipped us \$747 million.

Woodpulp and wastepaper, we shipped them \$12 million and they shipped us \$346 million.

Wood, logs, and lumber, we shipped them \$55 million they shipped us \$352 million.

Iron ore and concentrates, we ship \$58 million and they shipped \$275 million to us.

Fish, fresh and preserved, we shipped them \$8 million and they shipped us \$123 million.

Alcoholic beverages, we ship them \$2 million and they shipped us \$103 million.

It looks to me, as the Senator from Louisiana, that if we were to get into a trade war with Canada, my State stands very much to benefit. The obvious items to cut would be oil, petroleum, paper, pulp, logs, lumber, and in those areas we would have a big advantage.

Wouldn't it stand to reason that looking at these high wage industries of agriculture and machinery—machinery for industries, electrical machinery, automotive, and trucks—that it is in those areas, being high wage industries and being areas of their deficit, that that nation would be moving to protect its own position and to reduce that deficit.

Mr. HENRY: Well, this would be one method of attempting to take action which would help a deficit in the balance of payments. Of course, the balance of payments rests not only on merchandise trade but on services, capital movements, and many other factors and it would, of course, be Canada's decision if she felt Government action was necessary as to what she ought to do.

Senator LONG: Go ahead. I have no further questions at this time.

Senator GORE: I am based on your report.

Senator GORE: If I correctly understood your replies to the first questions of Senator Long, you state that it is the estimate of the U.S. Tariff Commission that a continuation of the tariff and duty relationship existing prior to the remission scheme would by 1968 improve U.S. export-import position with Canada beyond the situation anticipated as a result of this agreement. By 1968, if I recall your estimate, by a continuation of the prermision scheme situation, our trade balance would have been favorable by about \$841 million, did you say?

Mr. HENRY: \$841 million is what I said, Senator Gore.

Senator GORE: \$841 million.

Had the duty remission scheme been continued until 1968, what is your estimate of the balance?

Mr. HENRY: It is more difficult under that scheme to give an estimated figure. It would be considerably closer to the \$480 million which Mr. Tread estimated would be the result under the agreement.

Senator GORE: Or something less than that or something more than that.

Mr. HENRY: Something more than that; yes.

Senator GORE: About in what order, \$100, \$50 million, can you estimate it?

Mr. HENRY: It might be in the neighborhood of \$650 million instead of \$580 million.

Senator GORE: Mr. Chairman, this verifies, it seems to me, the statement I made to Secretary Mann on the very first day of the hearing, which he seemed to resist, that this agreement is a better deal for Canada and the automobile concerns than even the duty remission scheme was.

Just why we should make an agreement to end a scheme which is contrary to the rules and give up more than the scheme would produce against us, I don't quite understand. But this is what we have done.

Senator LONG: If you directed that question toward me, could I respond to that?

Senator GORE: Well, sure.

Senator LONG: Well, the point about it is that the Canadian market belongs to Canada, it doesn't belong to us, although we have a right to trade there. Brazil, for example, cut off imports of all our automobiles. Brazil requires that automobiles sold there be 100 percent

manufactured in Brazil. Also, as I understand it, trucks in Brazil must be 98 percent manufactured in Brazil. Now, Argentina just got through putting a 90-percent requirement on us, so that automobiles had to be 90 percent manufactured in that country. Now, Canada is a sovereign nation and has that power to take the whole thing away from us, isn't that correct? As a sovereign power, doesn't she have the right to claim her own market for her own manufacturers?

Mr. HENRY. Yes; she could, Mr. Chairman. Of course, the parts which Canada is now importing from the United States to include in her automobiles are those in which she has the greatest cost disadvantage. This is what you would expect the companies to do.

So, if Canada did, for example, require 100 percent content, the cost of production in Canada would rise. I should think rather materially, and result in a rather material increase in the prices of automobiles.

Senator LONG. Well, now, how much did that bother Brazil? The fact that it cost more to make automobiles there didn't bother her one whit. It doesn't bother Argentina one whit that it cost more to make cars down there.

Mr. HENRY. They went ahead and did it, Mr. Chairman, whether it bothered them or not.

Senator LONG. How about the European countries? Do any of them give free access to American automobiles to come in there?

Mr. HENRY. No; there are controls of various kinds in all European countries.

Senator LONG. My recollection is in a country like France they have five or six ways to hit you if you try to get an American automobile in there. Not just one. They have quotas, taxes, specialized tariffs to hit you with. How many American automobiles do we send into France?

Mr. HENRY. I don't know offhand, Mr. Chairman.

Senator LONG. Not many, do we?

Mr. HENRY. We don't export a large number; no.

Senator LONG. And it is because of restrictions, isn't that right? Even if ours cost more, there are people who would like to buy American automobiles over there because they are more comfortable.

Mr. HENRY. That is one of the reasons; yes.

Senator GORE. The point here, which the distinguished chairman seems to overlook, is that this is a grab bag for the U.S. market. The movement of—what, in your opinion, will be the effect on the movement of parts of this agreement? What will be the effect of this agreement on automobile parts as between the two countries?

Mr. HENRY. Senator Gore, that is a very difficult question to answer. As we pointed out in our report—

Senator GORE. I want to compliment you on the report. It is a good job. I thought you dealt fairly with the issue, and I want to say here that I recognize the independent status of the U.S. Tariff Commission.

I also recognize the delicacy of this issue, with administration pressure for it, and I do not wish in any way to put the Tariff Commission in an embarrassing position. I only expect factual answers and no opinions.

Mr. HENRY: As we pointed out in our report to the House Ways and Means Committee, the decision that will be made by each company as to how it will attain the increased Canadian value added that it is required to by the agreement and by the collateral letters of undertaking will be influenced by a wide variety of factors. We came to the conclusion in the report, though, that probably a considerable part of the increased production in Canada would be exported. This might be in motor vehicles. It might also be in parts.

Senator Gore: Where would it be exported?

Mr. HENRY: Some motor vehicles could be expected to countries other than the United States. Primarily I think the United States is the main market for it.

Senator Gore: For both parts and automobiles?

Mr. HENRY: Possibly more so for parts but—

Senator Gore: What would be the duty for the importation of parts made in Canada after this agreement goes into effect?

Mr. HENRY: Into the United States?

Senator Gore: Yes.

Mr. HENRY: If the Canadian-made parts meet the content requirements it will be free of duty for original equipment.

Senator Gore: Now, for original equipment, we understand that that means that only the manufacturers of automobiles can import duty free.

Mr. SHEWMAKER: No. The original equipment parts can be imported by others. However, under the tariff arrangement the importer, let's say he is an independent parts manufacturer, who has obtained components from Canada, he would be making his claim against an order from the U.S. automobile manufacturer for original parts. So when the goods come in, he would establish that, by virtue of the producer making a contract with him for original equipment parts, he is entitled to get these articles from Canada free of duty for use in making this component. But there would have to be a tie-in with the U.S. automobile manufacturer.

Senator Gore: Yes. It is an end use?

Mr. SHEWMAKER: It is an end-use concept.

Senator Gore: In other words, the automobile manufacturing companies can import duty free, import parts duty free, and also others can import parts duty free if and to the extent that such parts are to be sold to the automobile manufacturing companies.

Mr. SHEWMAKER: There would have to be more than the possibility that they would be sold to the manufacturer. There would have to be a specific line of continuity emanating from the U.S. automobile manufacturer. The only one who can intend to make an automobile is the U.S. automobile manufacturer. When he makes an order for original components from an independent, then and then only would the independent be in a position on importation to say there was an intention this be used in the end product.

An independent could not speculatively import under the theory of end use here involved, hoping that he could dispose of this import to a manufacturer for use as original equipment. There should be a tie-in from the beginning.

Senator Gore: Well, you said should be—there must be?

Mr. SHEWMAKER: There must be, yes.

Senator GORE. All right. Here we have the picture emerging that this privilege of importing parts from Canada duty free is confined to the automobile manufacturing concerns themselves, or to parties importing such part for the exclusive use of the automobile manufacturing concerns.

Mr. SHEWMAKER. And there would be the necessity that the very particular Canadian article actually finds its way into the automobile.

There should not be substitution, there should be the maintenance of identity from importation right on through to the assembly line.

Senator GORE. I will not ask you to confirm this, but this seems to be an airtight cartel for the exclusive benefit of the automobile manufacturing concerns.

Let the record show that you did not nod either affirmatively or negatively. I realize the position you are in.

So the parts manufacturers themselves in the United States can maintain their sales organization in the United States to sell to the automobile manufacturing concerns and establish factories in Canada to manufacture those parts and then import them duty free provided and only provided those specific parts go to the automobile concerns.

Mr. SHEWMAKER. That is right, sir. There could be also the situation where they only import a part of the part. They may import the whole business and be just sort of a middleman or, of course, there is nothing to keep the manufacturers in the United States from going directly to Canada to the particular producer of parts and then in that way it would come in directly to the automobile manufacturer.

Senator GORE. I see a little more clearly now why the people with jobs in automotive supply plants are so deeply concerned. I read into the record yesterday a letter circulated by a parts manufacturer to his employees notifying them that with the conclusion of this year's model certain types of springs would be manufactured exclusively in Canada.

I will not ask you to comment upon the name of the company, and so forth, but let me take a hypothetical case.

Suppose a corporation, company B, manufacturers radiators for General Motors—

Mr. SHEWMAKER. This is in Canada?

Senator GORE. In the United States.

And manufacturer B discovers that, because of the lower wage scale in Canada, he can manufacture radiators at a lower price in Canada. He has a contract with General Motors to supply parts, to supply radiators. But upon the discovery that he can fulfill that contract more profitably by manufacturing those radiators in Canada, if I understand your explanation of the bill and the agreement, company B can then manufacture the radiators in Canada, import them duty free to the extent and only to the extent that he supplies those radiators imported duty free to General Motors or to some other automobile manufacturing concern.

Mr. SHEWMAKER. That is right.

Senator GORE. That is right.

Now, suppose that he imports those radiators to sell to the Western Auto Supply, a store chain, what would be the situation?

Mr. SHEWMAKER. He would pay 8½ percent duty.

Senator GORE. He would pay 8½-percent duty? I won't ask you if the Tariff Commission would call that free trade, because that might be bordering upon an opinion.

Mr. SHEWMAKER. Well, it wouldn't be free trade in replacement radiators.

Senator GORE. It wouldn't be free trade for the people who must buy radiators to repair their automobiles, would it?

Mr. SHEWMAKER. No, sir.

Senator GORE. It wouldn't be free trade to the auto parts supply stores across the country.

It wouldn't be free trade to the garage owners and operators who use parts to repair the automobiles of their customers, would it?

Mr. SHEWMAKER. No.

Senator GORE. It would be free only to the automobile manufacturers and to the concerns and only to the extent that those concerns import and sell to or furnish to automobile manufacturing concerns.

Mr. SHEWMAKER. That is right.

Senator GORE. Did the Tariff Commission make an analysis of the duty remission scheme instituted by Canada in 1962?

Mr. SHEWMAKER. To the extent that we reflected it in this report.

Mr. HENRY. Enough to describe it briefly, Senator.

Senator GORE. Did you reach the conclusion that this was in effect an export subsidy?

Mr. SHEWMAKER. We are not in a position to treat with the question of whether this was or was not a bounty or grant within the countervailing duty statute. That, of course, is the responsibility of the Treasury Department.

We could observe only, and I think this perhaps is better for Mr. Henry to comment upon, that it did have the effect of stimulating exports to this country. The record shows that.

Isn't that right?

Mr. HENRY. Yes.

Senator GORE. Well, by stimulating exports to this country—those exports were stimulated not by lower costs of production, not by lower prices, but by remission of duty.

Mr. HENRY. That is correct.

Mr. SHEWMAKER. That is right.

Senator GORE. When this duty was remitted, who was the beneficiary?

Mr. HENRY. The Canadian automobile producers.

Senator GORE. Parts?

Mr. SHEWMAKER. It really affected mostly parts.

Mr. HENRY. Yes.

Senator GORE. Will you explain—before I get to that, I want to go back to this question of duty-free imports.

Now, to the extent that the parts which one of the automobile manufacturing companies uses are imported from Canada, what will be the effect in Canada upon the U.S. automobile concerns having subsidiaries in Canada?

Mr. HENRY. I am sorry, Senator, I didn't get the full import of your question.

Senator GORE. Well, I am thinking of the agreements between the automobile companies and Canada to increase their facilities, added

value requirements, and I was trying to find out what effect the increased production of company B on radiators in Canada, and imported from Canada to the United States, would have upon the agreements entered into with Canada.

Mr. HENRY. Senator Gore, are you asking whether the value of those exported radiators would count toward the attainment of their commitment to Canadian value added?

Senator GORE. You are correct. Thank you, you helped me.

Mr. HENRY. This is a little bit unclear.

Senator GORE. It is unclear to me.

Mr. HENRY. But if you read the letter which was written by the Ford Motor Co. of Canada to the Canadian Government, and assuming that the radiators went to Ford U.S.A., the value of those radiators would apparently count toward the Canadian value added that had to be achieved by Ford Motor Co. in Canada insofar as their commitments under the collateral letters of undertaking are concerned.

Senator GORE. So to the extent that Ford Motor Co. could pressure or persuade, or Canada could entice, company B, a parts manufacturer in the United States, to move their production and jobs to Canada, the automobile concerns, which in the United States use the parts originally, would benefit through the use of this Canadian production by a U.S. parts manufacturer for the purpose of supplying the U.S. concern.

Mr. HENRY. May I read you just part of a sentence from the Ford letter?

Senator GORE. What was your answer to that?

Mr. HENRY. Yes.

Senator GORE. So we have the automobile manufacturing concerns in the United States, the Big Four, the exclusive beneficiaries of duty-free import into the United States, and also the beneficiaries of the movement of other companies into Canada for production. This is really a big auto deal. Now, read it.

Mr. HENRY. Yes.

In the letter from the Ford Motor Co. of Canada, Ltd., to the Canadian Government where they are setting forth their understanding of what will count toward their attainment of their commitments of Canadian value added made in the letter, they say, and I quote:

Purchases of original equipment parts by any affiliated Ford Co. outside of Canada from Canadian vendors will be taken into account.

So, if Ford Motor Co. U.S.A. purchased the radiators from Canada it would be taken into account for the attainment of Canadian value added insofar as their commitments under the letters are concerned. This is apparently the import of this.

Senator GORE. So we have an arrangement by which the automobile manufacturing concerns in the United States can import duty-free parts which they themselves manufacture in Canada for their use in manufacturing automobiles in the United States, and other companies, concerns, supplying parts to the U.S. automotive manufacturing concerns, can import duty free for the exclusive supply to the U.S. automobile manufacturing concerns, but the automobile manufacturing concerns would be the beneficiary of added production in Canada

in the satisfaction of their commitments to Canada, by increased automotive production in Canada for their use in the United States whether that increased production be through their own subsidiaries or through other concerns importing into the United States for the exclusive use of those concerns.

Mr. HENRY. Yes. Toward their commitments made in the letters.

Senator GORE. Well, I must observe, Mr. Chairman, this is about as exclusive as an agreement can become. It is exclusive on both sides, both sides of the line, for the benefit of the Big Four.

What is your estimate of employment in the automotive industry in the United States and Canada?

Mr. HENRY. We would accept the figures that were placed before the committee yesterday, which I think were 771,000 employed in the United States and 65,000 in Canada if my memory serves me. We wouldn't have separate figures on this, Senator Gore.

Senator GORE. Let's accept those statistics for the sake of this discussion. You will recall, having heard the testimony, that it is estimated that, as a result of this agreement, by 1968 Canada will increase her share of the North American automotive market by 87½ percent going from 4 percent of the market, including both Canada and the United States, to 5½ percent.

Do you know whether this 5½ percent estimate includes the increased facilities in Canada by concerns other than the automobile manufacturing concerns themselves?

Mr. HENRY. I think that 5½ percent figure is calculated on the assumption that the Canadian companies fulfill their Canadian value added commitments in the agreement and in the collateral letters of undertaking. Therefore, to the extent that the companies in the United States purchased parts from Canadian vendors other than the automobile companies and their affiliated companies in Canada and those counted toward Canadian value added, it would include it.

Senator GORE. But it does not include, do I gather from your statement, such increased production as may be exported to the United States for use other than original use?

Mr. HENRY. I am not certain in figuring both of the percentages 4 and 5½ percent whether those who calculated them took into account both in the United States and Canada replacement parts, or the production of replacement parts.

This, however, I think, wouldn't affect the figures substantially in any event. They would affect them to some degree, of course.

Senator GORE. Well, like you, I am not entirely certain that—

Mr. HENRY. Excuse me, Senator Gore, we made calculations excluding, trying to exclude replacement parts, because at the moment at least there was to be no change in the tariff on replacement parts under the agreement, and we came out approximately the same as the figures which you have given.

Senator GORE. You just expressed the view that the replacement parts, the import from Canada of replacement parts, are likely not to be substantial. That was my opinion until I had a second thought.

Let us take a concern about which I made reference yesterday. Suppose that this concern, or let's take another concern, let's take a hypothetical case.

Suppose company X is the exclusive supplier to Ford Motor Co. of carburetors for their 1967 models. This is a U.S. concern having

a contract with Ford Motor Co. for the total supply of carburetors used in the manufacture of Ford automobiles. It decides to establish its production facilities in Canada, and thereby import duty-free carburetors for the manufacture of Ford automobiles. But this company with the design of the carburetor, perhaps with the patent on the design of the carburetor going into a Ford automobile, will also have an advantage, despite the duty, for the supply within the United States of replacement carburetors on the 1967 Ford model. It would seem to me, therefore, that this concern with its dies, with its production line in Canada, to supply original parts, may find it economic to manufacture the carburetors for replacement purposes in the United States despite the 8½ percent duty for importation.

Do you see that?

Mr. HENRY: Yes, I would agree with that under the circumstances you outline.

Senator GORE: Well now, if that circumstance is multiplied then on second thought I begin to consider the import of replacement parts as much more of a problem than I had originally thought. Had you thought of it in that light?

Mr. HENRY: Not specifically in that light, no, Senator Gore.

Senator GORE: Don't you think that one doesn't have to reach very far in his imagination to find that situation? I read into the record yesterday of the case of a company manufacturing springs moving its production into Canada, and I would conclude, I would think it would be reasonable to conclude, that if that company has moved its production facilities to Canada exclusively for that particular spring for that particular model automobile, that it would expect to manufacture replacement parts in Canada also.

Mr. HENRY: Yes, I think that would be quite possible.

Senator GORE: Don't you think under those circumstances—excuse me.

Mr. SHEWMAKER: I was just going to say that, on page 69 of our report, we have, in discussing adjustment assistance, the Commission made this comment:

It appears quite conceivable that "dislocation" might occur or be threatened to a firm that merely produces replacement automotive parts or to a group of workers in such firm, and that the "operation of the agreement" might be "the primary factor" in causing or threatening to cause such dislocation.

We went on to point out that the adjustments assistance features of the bill would not have application in that circumstance, and they—the replacement parts firm—would have to petition under the regular assistance provisions of the TEA.

Senator GORE: Well, Mr. Chairman, this is extremely informative testimony at this hearing, but I know that the executive session of the committee is called for 10 o'clock and I don't want to be in the position of delaying the executive session of the committee.

Senator SMITHERS: All right, sir, thank you very much, Senator Gore.

If there are no other questions.

Senator GORE: I didn't say there weren't any other questions. There would be many other questions but I certainly don't have any other questions when the committee is going into executive session.

Senator SMITHERS: All right.

The committee will stand in recess until further notice of the Chair.
(By direction of the chairman, the following is made a part of the record.)

GENERAL COUNSEL OF THE DEPARTMENT OF COMMERCE,
Washington, D.O., September 21, 1965.

HON. HARRY F. BYRD,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This letter is in reply to your request for the views of this Department with respect to H.R. 9042, a bill to provide for the implementation of the agreement concerning automotive products between the Government of the United States of America and the Government of Canada, and for other purposes.

The original version of this bill was transmitted to the Congress by the President on March 31, 1965, with a letter of explanation and analysis. The Department of Commerce has participated in the negotiation of the automotive products agreement with Canada and the preparation of this implementing legislation. For the reasons given in the President's letter and in the September 15, 1965, testimony of Secretary Connor before your committee as well as in his April 27, 1965, testimony before the Ways and Means Committee of the House of Representatives, the Department recommends enactment of the bill in the form passed by the House.

The bill authorizes the President to proclaim the modifications to the Tariff Schedules of the United States needed to implement the Canadian-United States agreement and other automotive products agreements which may be entered into by the President. It also contains several provisions that are of special interest to the Department of Commerce.

Title III of H.R. 9042 establishes tests for tariff adjustment and for adjustment assistance for firms and workers who may incur dislocation as a result of the operation of the United States-Canadian agreement. The adjustment assistance to be made available to those firms and workers certified as eligible is that provided in title III of the Trade Expansion Act of 1962. Significant dislocation is not expected to result from the operation of the agreement.

Title IV of the bill sets out the modifications to the TSUS needed both to implement the agreement with Canada and to protect against the diversion of duty-free imports into the U.S. replacement parts market.

The Secretary of Commerce will maintain a list, under the specific criteria spelled out in the statute, of bona fide motor vehicle manufacturers, and only persons on this list, or persons having an order, contract, or letter of intent from a person on this list may import original equipment parts from Canada on a duty-free basis. The list will aid customs officials in implementing their procedures relating to importer declarations concerning the intended use of the imported articles. Preparation and maintenance of the list of bona fide motor vehicle manufacturers is not expected to require additional funds.

Section 403 of the bill provides a basis for protecting U.S. producers against evasion of U.S. tariff protection by persons importing parts from third countries via Canada.

We have been advised by the Bureau of the Budget that there would be no objection to the submission of our report from the standpoint of the administration's program.

Sincerely,

ROBERT E. GILES,
General Counsel.

DEPARTMENT OF STATE,
Washington, September 20, 1965.

HON. HARRY F. BYRD,
Chairman, Committee on Finance, U.S. Senate.

DEAR MR. CHAIRMAN: This letter is in reply to your request for the views of this Department with respect to H.R. 9042, a bill to implement the agreement concerning automotive products entered into between the Government of the United States and the Government of Canada, and for other purposes.

The Department of State supports the bill as passed by the House of Representatives. It is necessary to carry out the agreement which President Johnson

signed with Prime Minister Pearson on January 16, 1965. That agreement made possible a long step forward in the commercial relations of the United States with Canada, our major trading partner. The agreement brought a satisfactory conclusion to a situation which involved the danger of deteriorating relations in our \$700 million trade in automotive products with potential harm to the U.S. automobile industry, parts industry, and workers.

The agreement has the purpose of freeing trade in automotive products between our two countries, making possible more economic use of production facilities in both countries, and increasing the total North American market for automotive products. It provides specifically for the removal by Canada of duties on vehicles and parts for original manufacture under the terms of the agreement. It also provides that the United States will request the Congress at this session to enact the necessary legislation to authorize duty-free imports of the same kinds of Canadian automotive products under the terms of the agreement. Canada has already acted to remove its duties as promised. The Department believes, as the President stated in his letter to the Vice President, that it is now our turn to act.

The Department is ready to cooperate in every way with your committee and its staff in the consideration of this bill.

The Bureau of the Budget advises that from the standpoint of the administration's program there is no objection to the submission of this report.

Sincerely yours,

HORACE G. TORBERT, Jr.,
Acting Assistant Secretary for Congressional Relations.

(Whereupon, at 10 a.m., the committee recessed, subject to call of the Chair.)

