

## AUTOMOTIVE PRODUCTS TRADE ACT OF 1965

SEPTEMBER 27, 1965.—Ordered to be printed

Mr. BYRD of Virginia, from the Committee on Finance, submitted the following

### REPORT

together with

### MINORITY VIEWS

[To accompany H.R. 9042]

The Committee on Finance, to which was referred the bill (H.R. 9042) 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, having considered the same, reports favorably thereon with amendments and recommends that the bill as amended do pass.

### PURPOSES

The principal purposes of H.R. 9042 are to authorize the President (1) to implement the Agreement Concerning Automotive Products Between the Government of the United States and the Government of Canada, signed January 16, 1965; (2) to authorize the implementation of similar agreements that the President may enter into with countries other than Canada; (3) to authorize the implementation of agreements supplementary to the foregoing agreements; and (4) to provide interim special procedures for adjustment assistance to firms and workers suffering dislocation resulting from the operation of the agreement referred to in (1) above.

### SUMMARY OF COMMITTEE AMENDMENTS

The committee amended the House-passed bill in three respects.

(1) *Congressional approval of new agreements.*—This amendment requires positive congressional approval of the implementation of any new agreement covering motor vehicles and component parts. This

replaces the negative approach in the House-passed bill which would have provided automatic approval of such an agreement unless Congress passed a concurrent resolution of disapproval within a 60-day period.

(2) *Suspension of proclamations.*—This amendment provides that if the level of Canadian value added should be increased after August 31, 1968, by reason of governmental action, the proclamations effecting duty-free entry into this country for Canadian motor vehicles and original equipment parts would be suspended. It provides a safeguard against new undertakings required of U.S.-owned businesses under which Canadian production would have to be increased to levels above those for which commitments have been made at the time the legislation is approved. On the other hand, even if Canadian value added were required to be increased by further undertakings, Congress could act to continue the duty-free importation into the United States by approving implementing legislation which in effect would endorse the new commitments.

(3) *Tariff schedules modifications.*—The committee also made technical amendments to title IV of the bill. These amendments conform the tariff designations of the articles entitled to duty-free entry to the changes in the Tariff Schedules made by the Tariff Schedules Technical Amendments Act of 1965.

#### OCCASION FOR THE BILL

The occasion for H.R. 9042 arises from the signing on January 16, 1965, by the President of the United States and the Prime Minister of Canada, of an Agreement Concerning Automotive Products Between the Government of the United States of America and the Government of Canada (hereinafter referred to as the "agreement"). The following letter from the President to the Speaker of the House of Representatives, recommending the enactment of legislation along the lines of H.R. 9042, states the administration's reasons for the legislation:

THE WHITE HOUSE,  
Washington, March 31, 1965.

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

DEAR MR. SPEAKER: On January 16, Prime Minister Pearson of Canada and I signed an important agreement looking toward freer trade in automotive products between our two North American countries. This agreement resolves the serious difference which existed between Canada and the United States over our automotive trade. More significantly, it marks a long step forward in U.S. commercial relations with her greatest trading partner. It testifies to the good will and confidence between us.

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

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

Historically, Canada's share in North American automotive production has lagged far behind her share in automotive purchases. In 1963, in an attempt to increase its share of the North American market, the Canadian Government put into effect a plan, involving the remission of tariffs, which was designed to stimulate automotive exports. A number of U.S. manufacturers, believing they would be injured by the plan, called upon this Government to impose counter-vailing 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 pledge 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 export 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.

#### REASONS FOR THE BILL

This bill and the agreement it implements are integral parts of our foreign economic policy toward Canada.

The President, in proposing this legislation to the Congress, said that the agreement which it will make effective "resolves the serious difference which existed between Canada and the United States over our automotive trade." He added: "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 Secretary of Commerce added that "through this agreement Canada has operated to move in the direction of a single North American automotive industry, and away from maintenance of a separate industry protected by 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 \* \* \*."

Not only is the administration strong in its support of the bill, but also both industry and labor are in favor of its prompt passage. That it will enable new economies in the automobile industry, an industry which thrives on mass production and long production runs, is undisputed.

The executive vice president of the General Motors Corp. illustrated the costly inefficiency of the preagreement situation by pointing out that, in order to meet the various restrictive requirements of Canadian law, a single GM plant in Canada is assembling this year a total of 595 different passenger car and truck models, many more than twice the number in any U.S. plant. The situations of the other U.S. companies in Canada are similar. The agreement will greatly simplify

the operations of the U.S. companies by allowing them to reduce the number of different models produced in Canada and to increase the runs of the models produced there. This will lead to considerable economies.

The vice president of the Ford Motor Co. testified that his company expects 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."

That it will serve to further the interests of labor is attested to by the Secretary of Labor and by spokesmen for the United Auto Workers who appeared at the hearings before the Committee on Finance and at the earlier hearings before the Committee on Ways and Means of the House.

#### EFFECTS ON U.S. PARTS INDUSTRY

The committee has examined with particular care the effect the implementation of the agreement might have on the very important independent automotive parts manufacturing industry in the United States. We have been assured by the Secretary of Commerce that the independent parts industry will not be adversely affected and, in fact, "should also benefit from this program, both immediately as a result of the termination of the Canadian duty remission scheme, and in the long run as a result of the projected increase in total vehicle sales in the North American market."

The benefits of the agreement apply to both independent parts manufacturers and to the big companies. The parts manufacturers benefit immediately because under the agreement their parts to be used in original equipment are now able to enter Canada duty free. Relieved from duties which ran as high as 25 percent, they will be able to compete far more effectively with less efficiently produced Canadian parts.

Your committee believes that over the long run the absence of duties as provided by the agreement will achieve the objectives of the agreement with the result that there will be a more rapid growth of the Canadian market, and an ultimate reduction of prices of cars to the Canadian consumer. This will lead to increasing sales for U.S. parts manufacturers—sales which would have been impossible without the agreement and the sound business practices it makes possible.

#### GENERAL STATEMENT

This legislation implements the United States-Canadian Automobile Agreement. It authorizes the President to eliminate U.S. duties on motor vehicles imported from Canada and on original equipment parts and accessories imported from Canada for use in the production of automobiles in this country. It also provides adjustment assistance for any workers or firms dislocated because of new trade patterns growing out of the agreement, with special rules of procedure for determining eligibility, applied over a transitional period to insure that the assistance provided for will be available in the event it should be needed.

The agreement itself is a new and bold approach directed toward the dismantling of trade barriers thwarting the economic growth of the United States-Canadian auto industry. This binational industry is unique. Unlike the European pattern of automobile production, where neighboring countries have developed their own autonomous industry with distinct body styles and types, the automotive industries of the United States and Canada logically and in reality constitute a single great industry. Virtually all automotive producers in the United States, including many of the larger parts producers, have manufacturing plants in Canada. In fact, more than 90 percent of all motor vehicles produced in Canada are made by subsidiaries of U.S. companies. Workers in both countries, for the most part, belong to the same international union. Motor vehicles generally are identical, and parts and components produced in the United States and Canada are interchangeable. Moreover, the geographic proximity of manufacturing facilities, near to both sides of the border, contributes further to the integrated nature of this industry.

Despite the natural tendencies toward a single integrated North American automotive industry, however, the industry has been divided by tariff and other barriers. Tariff protection of the much larger and economically stronger U.S. industry has, in recent years, been relatively low. The duty on most vehicles imported into the United States is 6½ percent ad valorem and the duty on most parts is 8½ percent ad valorem. Canada, on the other hand, has maintained duties of 17½ percent ad valorem on vehicles and up to 25 percent on automotive parts. Moreover, Canada has maintained a so-called content requirement which, in effect, required that Canadian firms incorporate up to 60 percent of parts and labor of Canadian origin in their automobiles assembled in Canada.

While the Canadian restrictions helped to build and maintain a viable automobile industry there, this resulted in higher production costs and higher priced products to the Canadian consumer. Not only was the total North American market smaller but Canada's share of production for this market remained far behind her share of consumption in her own market.

1. *Remission plan.*—In an attempt to remedy this situation and to increase production and employment, the Canadian Government in 1963 announced its so-called remission plan designed to stimulate exports of automotive products by remitting duties on imports to producers who increased exports. Several U.S. parts manufacturers believed this plan unfairly disadvantaged them and they registered strong protests. They regarded the Canadian plan as a subsidy and they sought the imposition of countervailing duties by the United States under section 303 of the Tariff Act of 1930. Whether or not countervailing duties had been imposed against imports from Canada, it is clear that the automotive industry was threatened by a period of uncertainty and possible disruption of its trade and production patterns.

2. *The agreement.*—Thus, faced with a potential trade war with our greatest trading partner, a bold solution was called for. The tariff reductions of 50 percent authorized by the Trade Expansion Act, which must be staged over a 5-year period, obviously were not suitable remedies. Fast and more far-reaching action was needed. The President responded swiftly and surely to stifle the threat of a spreading trade war.

In the agreement he signed with Prime Minister Pearson of Canada, the objective of seeking the early achievement of a broader market for automotive products, within which the full benefits of specialization and large-scale production can be more fully realized, has been endorsed. To this end, the United States and Canada have agreed to the removal of tariffs with a view to enabling the industries of both countries to participate in the expanding total market in North America. They also have agreed to develop conditions in which market forces may operate to attain the most economic pattern of investment, production, and trade, and to avoid actions which would frustrate the achievement of these objectives (art. I).

For its part, Canada has undertaken to accord duty-free treatment to U.S.-produced motor vehicles imported by a Canadian motor vehicle manufacturer and to U.S.-produced parts imported for use as original equipment in automobiles to be produced in Canada by a motor vehicle manufacturer (art. II(a)).

The U.S. Government has agreed to seek the enactment of legislation in the current session of Congress authorizing the extension of duty-free treatment to the similar products imported from Canada. Since Canada planned to implement its part of the agreement by order-in-council promptly after signature of the agreement, the United States agreed also to seek congressional authorization to remove its duties retroactive to the earliest date administratively practicable following the date on which Canada removed its duties (art. II(b)). This bill provides the legislation needed to carry out the U.S. obligations.

The agreement permits either Government to take action consistent with its obligations under part II of the General Agreement on Tariffs and Trade (GATT) (art. III). Part II of the GATT includes provisions permitting contracting parties to take antidumping measures and escape clause actions. In this connection it should be made clear that nothing in this agreement nor in this enabling legislation acts to dull the operation of our remedial statutes. If a situation calling for application of the antidumping statute should arise, the remedies under that act may be invoked. Similarly, in the event of collusion contrary to the Federal antitrust laws, the provisions of those laws remain fully available.

Provision is made for consultations at the request of either Government on any matter relating to the agreement, as well as for a comprehensive review, no later than January 1, 1968, of progress made toward achieving the objectives of the agreement (art. IV).

The agreement permits either country to conclude similar agreements with third countries (art. V).

The agreement came into provisional force upon the date of signature and is to come into definitive effect after appropriate action is completed in the respective legislatures of the two Governments (art. VI).

The agreement will continue indefinitely but either Government may terminate the agreement after 12 months' written notice (art. VII).

The "annexes" to the agreement spell out in detail the terms and conditions of the duty-free treatment provided for in the agreement. The full text of the agreement, together with a supplementary exchange of notes, is set forth in appendix A.

3. *Letters of undertaking.*—One of the novel features of the solution embodied in the arrangement is the ancillary undertaking by the Canadian automobile companies. By their undertakings the Canadian subsidiaries of U.S. auto companies have expressed to the Canadian Government their intention of expanding their Canadian operations in such a way that the "Canadian value added" (that is, the amount of value added to a product by reason of Canadian industry or services) would be heightened by the end of model year 1968. The total of the additional Canadian value added in the undertakings stated by all the Canadian companies is to be approximately \$241 million plus 60 percent of increased Canadian sales, measured in terms of production costs.

These undertakings (reproduced in app. B) were made by the Canadian subsidiaries in order to reassure the Canadian Government that in agreeing to reciprocal elimination of duties the Canadian part of the automotive industry would not be submerged. The Canadians also wished to be sure that the U.S. parent companies would treat the Canadian plants equally and would not overlook the advantages of production and procurement in Canada. Moreover, Canada wished to be sure that Canadian production and employment would participate in the anticipated rapid growth of the Canadian automobile market.

The undertakings of the Canadian companies are subject to necessary qualifications about market conditions and other factors beyond the control of individual companies.

In the view of the committee, although these letters limit the free trade character of the new arrangements, they do not derogate in any significant degree from the objectives of the agreement. Moreover, the committee has been informed that undertakings for increased production stated in the letters end in 1968, that the administration does not approve their renewal or extension.

However, the committee believes that regardless of the duration of the existing undertakings, no new undertakings should be required of U.S. subsidiaries. Therefore, it has amended the bill to insure that elimination of our tariffs on autos and original equipment parts and accessories will remain in effect after model year 1968 only if new undertakings are not required of our auto companies' subsidiary manufacturers in Canada which involve additional commitments to the Canadian Government for further increasing Canadian value added. If such commitments should be required and if the President made a finding to that effect, he would be required to suspend duty-free entry of autos and original equipment parts and accessories unless (1) Congress in effect approved the additional undertakings by enacting new implementing legislation, or (2) he determines that the additional undertakings caused by governmental action have become inoperative.

This amendment, in effect, provides an opportunity for Congress to review the operation of the agreement if it should be changed because of new undertakings resulting from governmental action.

4. *Advantages of the agreement.*—The agreement is a major stride forward in United States-Canadian economic relations. It represents a joint decision by our two great nations to allow the development of a single unified North American automobile industry uninhibited by tariffs. It 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.

Beyond the automotive industry, however, the agreement establishes a new and desirable course in United States-Canadian relations. The United States has long maintained close and friendly relations with Canada. We are each other's largest trading partners, exchanging about \$9 billion worth of goods between us in 1964. The pattern established for integrated production in the automotive industry could further strengthen the already close economic and other ties between ourselves and Canada to the mutual benefit of both countries.

### THE AGREEMENT AND GATT

Under the agreement, and as it will be implemented by the bill, duty free treatment is to be limited to automotive products of Canada. This special treatment is admittedly inconsistent with the obligation of the United States, under article I of the General Agreement on Tariffs and Trade (GATT), to accord unconditional most-favored-nation treatment in respect of customs duties to the products of contracting parties to that agreement. However, the agreement deals with a special and unique relationship between the United States and Canadian automobile industries. As stated previously, motor vehicles, parts, and components are produced in the United States and Canada by companies generally sharing a common ownership, are interchangeable, and the geographic proximity of manufacturing facilities, on both sides of the border, contributes to the integrated nature of the industry.

Because the agreement is not expected to affect the prices for automotive products in the United States, there will be no adverse impact on imports from third countries. GATT recognizes in article XXV that there may be exceptional circumstances which may justify a waiver of an obligation. Your committee, like the Committee on Ways and Means of the House, believes that exceptional circumstances warranting a waiver are present, and is advised that the executive branch is invoking the GATT procedures for the purpose of obtaining a waiver.

Moreover, your committee points out that there are many instances where the most-favored-nation principle of the GATT has been set aside in the interest of trade expansion. The European Economic Community and the European Coal and Steel Community are good examples. So too are the European Free Trade Association and the Latin American Free Trade Association. Each of these arrangements depart from the most-favored-nation principle, yet all of them are successful in advancing the economies of their members.

### BALANCE OF PAYMENTS

One aspect of this legislation which was particularly explored by the Committee on Finance was its potential impact on our balance of trade with Canada and on our balance of payments. As already noted,

Canada of all the countries of the world is the best market for U.S. goods and services, and as might be expected this country is Canada's best market. Total trade in commodities alone totaled nearly \$8 billion in 1963 and \$9 billion in 1964. The significant areas of trade between our two countries are shown in the following table:

TABLE I.—United States-Canadian trade, total and by principal commodities, 1963 and 1964

[In millions of U.S. dollars]

Commodity	1963		1964	
	U.S. exports to Canada	U.S. imports from Canada	U.S. exports to Canada	U.S. imports from Canada
Total, all commodities.....	4,039	3,820	4,653	4,227
Maize, unmilled.....	94	(1)	95	(1)
Fish, fresh and preserved.....	8	108	8	123
Alcohol beverages.....	1	92	2	103
Iron ore and concentrates.....	58	199	58	275
Coal and coke.....	136	5	135	14
Wood, logs, and lumber.....	46	358	55	352
Woodpulp and wastepaper.....	10	306	12	346
Paper and paperboard.....	43	683	47	747
Petroleum, crude and partly refined.....	(1)	234	(1)	268
Nickel.....	7	146	7	134
Aluminum.....	22	110	31	112
Agricultural machinery.....	252	128	304	145
Machinery for special industries and not elsewhere classified.....	440	29	538	57
Electrical machinery.....	262	70	291	70
Road motor vehicles and parts.....	490	24	593	64

<sup>1</sup> Less than \$500.

Source: Compiled by the U.S. Tariff Commission from official statistics of the U.S. Department of Commerce (FT-120 and FT-420).

This table shows not only the heavily one-sided trade in autos and parts, but also the probable victims and beneficiaries of a trade war with Canada.

Table II, below, shows the trend of trade between the United States and Canada in autos and parts. It also shows the constantly widening U.S. surplus.

TABLE II.—United States-Canadian automotive trade

[In millions of dollars]

	Calendar year				1st half (January to June)		
	1961	1962	1963	1964	1963	1964	1965
U.S. exports to Canada:							
Cars.....	45.2	50.2	26.9	43.4	10.1	18.9	47.6
Trucks and buses.....	23.2	19.2	18.3	15.2	7.6	8.1	11.9
Parts.....	311.8	330.1	497.7	393.4	242.0	321.9	326.0
Total.....	380.2	399.6	541.0	654.0	259.8	348.9	385.5
U.S. imports from Canada:							
Cars.....	.6	.8	.8	18.9	.6	6.0	17.1
Trucks and buses.....	.2	.3	1.3	4.7	.1	1.5	2.1
Parts.....	6.9	8.4	18.8	52.2	8.8	19.3	39.6
Total.....	7.7	9.5	21.4	75.7	9.5	26.8	58.8
U.S. trade surplus.....	372.5	390.1	519.6	578.3	250.3	322.1	326.7

Source: Compiled from Bureau of the Census, FT-410 and FT-110.

The Treasury Department was asked by the committee to present a statement directed solely to the balance-of-payments implications. Hon. Merlyn N. Trued, Assistant Secretary for International Affairs, U.S. Treasury, appeared in open hearing in response to the committee's request. His conclusion, on behalf of the Treasury Department, was clear, simple, and precise. He stated:

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.

The facts and data upon which he based this conclusion are equally clear and simple. For the convenience of the Senate, Mr. Trued's complete statement is reproduced as follows:

STATEMENT OF HON. MERLYN N. TRUED, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, U.S. TREASURY, BEFORE THE FINANCE COMMITTEE OF THE U.S. SENATE, SEPTEMBER 20, 1965

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.

	Model year	
	1964 <sup>1</sup>	1968
Total sales in Canada (and out of Canada to 3d countries) of automotive products made in United States and Canada.....	<i>Millions</i> \$1,543.5	<i>Millions</i> \$2,000
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	590

<sup>1</sup> 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 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 right-hand 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) 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.

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. 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.

The Committee on Finance is in agreement with these conclusions. Failure of the President and of the Canadian Prime Minister to conclude the negotiation leading up to the auto agreement could have signaled the beginning of a trade war, under which both countries would have been losers. Obviously the United States would have been the greater loser because of the tremendous contribution the Canadian markets has made to our balance of trade and our balance of payments.

Under the agreement neither country is a loser; both are winners. By the Treasury computations both nations will share in the expanded trade in such proportions that our favorable balance of trade will not be disrupted over the period covered by the letters of undertaking.

Such a result of a trade agreement is truly unique. Generally one party or the other must suffer an unfavorable shift in trade patterns. By this agreement we will avoid an unfavorable shift in our export trade.

#### PROVISIONS OF H.R. 9042

The bill contains five titles. The principal operative features of the bill are contained in titles II, III, and IV, which are described below in general terms.

##### A. TITLE II—BASIC AUTHORITIES

###### 1. *Authority to implement United States-Canadian agreement (sec. 201)*

The President is authorized to proclaim modifications of the Tariff Schedules of the United States in order to carry out the agreement. The vast bulk of modifications to be made are set out in title IV, but the President is authorized under certain circumstances, such as the development of new automotive articles, to proclaim further modifications if necessary to carry out the agreement.

###### 2. *Authority to implement other agreements (sec. 202)*

The President is authorized to proclaim modifications of the Tariff Schedules required to carry out other agreements providing for the mutual elimination of duties applicable to motor vehicles and original equipment components. Your committee believes this authority is necessary to demonstrate to other countries producing automotive products that the United States is willing to agree to extend the advantages of the United States-Canadian agreement where such an agreement would afford mutual trade benefits.

The agreement does not cover replacement parts. In order to round out the measures taken under the agreement to make North American automotive production more efficient, your committee hopes that the agreement will in the future be extended to provide for the reduction or elimination by both countries of duties on replacement parts. Accordingly, the President is authorized to modify the Tariff Schedules to carry out such a future agreement with Canada. In addition, if the President subsequently negotiates an agreement providing for elimination of duties on motor vehicles and original equipment, the bill authorizes him to proclaim modifications of the Tariff Schedules to carry out any subsequent agreement he may enter into for the reduction or elimination of the duties on replacement parts.

Before initiating the negotiation of another agreement (relating to motor vehicles and original equipment from countries other than Canada or to replacement parts from any country), the President is to seek the advice of the Tariff Commission on the probable economic effect of the agreement, to provide an opportunity for interested parties to present their views, and to seek information and advice from interested departments of government and from such other sources as he may deem appropriate.

###### 3. *Committee amendment*

The bill as passed by the House would have provided that the proclaiming authority to implement other agreements covering original equipment or any agreements on replacement parts is to be exercised only after the President has transmitted to each House of Congress a copy of the relevant agreement and the agreement has

lain before the Congress for 60 days (computed as provided in the House bill) during which a concurrent resolution disapproving the agreement is not adopted. The Committee on Finance amended this negative provision of the House-passed bill to provide that the proclaiming authority is to be exercised only after the Congress by concurrent resolution has approved the implementation of the relevant agreement.

*4. Effective date of implementing proclamations (sec. 203)*

The President is authorized to make his proclamations carrying out the agreement retroactive to a date not earlier than January 18, 1965. Canada began giving U.S. automotive products duty-free treatment on that date, and it would benefit the U.S. automotive industry, which has already made its initial plans under the agreement, if our elimination of duties as well were operative during that period. The agreement contemplated that the President would ask the Congress for this authority, and your committee believes it should be granted.

*5. Termination of proclamations (sec. 204)*

This section authorizes the President to terminate at any time in whole or in part any proclamation issued pursuant to this act.

*6. Suspension of proclamations—Committee amendment (sec. 205)*

Section 205 of the bill was added by the Committee on Finance. It provides for an investigation by the President to determine whether any manufacturer which is owned or controlled by a U.S. corporation has undertaken by reason of governmental action to increase the Canadian value added of motor vehicles or original equipment parts after August 31, 1968. This is generally the expiration date for the letters of undertaking by the Canadian subsidiaries of U.S. corporations providing for increase in Canadian value added of 60 percent of increased Canadian sales (measured in terms of production costs) after 1964 plus \$241 million. (This \$241 million increase is to be achieved by the end of model year 1968.) Under this committee amendment, if the President determines that such a manufacturer has undertaken by reason of governmental action to increase the Canadian value added after August 31, 1968, he shall suspend the duty-free importation of autos and parts from Canada unless (1) the Congress authorizes continued duty-free treatment by approving legislation in effect endorsing the new undertaking, or (2) the President finds that the undertaking to increase Canadian value added no longer is operative. The committee was informed that the letters of undertaking of the Canadian subsidiaries of U.S. corporations would not apply after model year 1968. Whether or not this is accurate, if no new undertakings are required, the President would have no occasion to suspend the duty-free treatment under the amendment. If, on the other hand, letters of additional undertaking are obtained from these subsidiaries by reason of governmental action, the amendment would enable Congress to review the operation of the agreement in light of the conditions as they exist at the time such undertaking is obtained.

Under the committee amendment, in determining whether there has been an undertaking by a manufacturer to increase Canadian value added, the President may disregard any undertaking he finds to be consistent with the objectives of the agreement. However, the amendment further provides that the President may not find an

undertaking to be consistent with the objectives of the agreement if it is greater than the undertaking agreed to before the enactment of this legislation. As already stated, these undertakings are (in total) to increase Canadian value added by 60 percent of the growth in Canadian sales plus an additional \$241 million, and this latter amount is to be satisfied by the end of model year 1968.

#### B. TITLE III—ADJUSTMENT ASSISTANCE

##### 1. *General authority (sec. 301)*

The tariff adjustment and other adjustment assistance provisions of the Trade Expansion Act of 1962 (TEA) are made applicable by the bill where increased imports resulting from the reduction or elimination of duties proclaimed under the bill have adverse effects upon industries, firms, or workers. Thus, the bill provides that petitions may be filed for tariff adjustment or for determinations of eligibility of firms or workers to apply for the adjustment assistance made available in the Trade Expansion Act of 1962 as though the reduction or elimination of duties proclaimed by the President under this act were trade agreement concessions within the meaning of the Trade Expansion Act.

For an interim period, however, the adjustment assistance provisions of the Trade Expansion Act would also apply to firms and workers certified to be eligible to apply for adjustment assistance under special procedures described below.

##### 2. *Special authority during transitional period (sec. 302)*

Section 302 of the bill establishes special authority for a limited transitional period with respect to eligibility to apply for adjustment assistance for firms and workers. When the transitional authority terminates in July 1968, the permanent authority for determining eligibility to apply for adjustment assistance contained in the TEA (as made applicable by sec. 301 of the bill) will continue to apply to firms and workers in the auto industry. For the period up to July 1, 1968, the bill provides that a firm or group of workers producing an automotive product may petition the President for a determination of their eligibility to apply for adjustment assistance. These petitions are to be filed directly with the President (or the agency to which he delegates his functions) who is to be responsible for making the determinations related to whether or not "dislocation" has taken place, and, if so, whether or not the "operation of the agreement" has been the primary factor in causing such dislocation. (These terms are defined in the bill.)

Although it is not expected that there will be widespread dislocation arising as a result of the operation of the agreement, it is recognized that specific cases of dislocation could occur.

The bill establishes specific economic criteria, designed to measure the changes in domestic production and in U.S. trade with Canada in the automotive product like or directly competitive with that made by the petitioning firm or workers. If there is a decline in U.S. output of the product concerned and an adverse change (either by increased imports or decreased exports) in the flow of trade with Canada, a direct relationship between the dislocation and the operation of the agreement is presumed to exist. Therefore, the petitioning



firm or workers covered by the petition should at that point become eligible to apply for adjustment assistance.

Your committee recognizes, however, that no statistical system or set of economic criteria is perfect or can cover every contingency. Therefore, even though the specified criteria may be satisfied, the President is not to certify the firm or workers concerned as eligible to apply for adjustment assistance if he determines that the operation of the agreement has not been the primary factor in causing or threatening to cause the dislocation. The committee also recognizes that there may be cases where dislocation may occur as a result of the operation of the agreement even though the specific economic criteria are not met. Accordingly, the bill provides that in the event the President determines that dislocation has occurred or is threatened but the specific economic criteria are not met, the President is to determine whether the operation of the agreement has nevertheless been the primary factor in causing or threatening to cause the dislocation. If he so finds, he is to certify the firms or workers.

The bill assigns to the Tariff Commission the function of providing a factual record on the basis of which the President can make the determinations of whether or not there has been dislocation, whether or not the economic criteria are satisfied, and whether or not the operation of the agreement has been the primary factor in causing the dislocation. Copies of petitions filed with the President will be transmitted to the Commission for investigation related to questions of fact relevant to such determinations. The President may also specify the particular kinds of data which he deems appropriate for the Tariff Commission to include in its report. The Commission is required to hold a public hearing in the course of any investigation if such hearing is requested within 10 days after publication of the Commission's notice of the receipt of the President's request. The Commission must report to the President the facts disclosed by an investigation not later than 50 days after the date it receives the President's request.

After the Tariff Commission has submitted its report, the President is to seek advice from the Departments of Commerce, Labor, and the Treasury, the Small Business Administration, and such other agencies as he may deem appropriate, and make his final determination not later than 15 days after the date of his receipt of the Tariff Commission's report, unless, within such period, the President requests additional factual information from the Tariff Commission. In this event, the Commission is to furnish the additional information within 25 days and the President is to make his final determination not later than 10 days after he receives such additional report.

If the President determines that the operation of the agreement has been the primary factor in causing the particular dislocation, he is to certify the firm or workers, as the case may be, as eligible to apply for adjustment assistance. This certification permits firms to go to the Secretary of Commerce and workers to the Secretary of Labor to seek the types and amounts of adjustment assistance provided in title III of the Trade Expansion Act of 1962.

The committee is informed that the President plans to delegate the authority granted to him under section 302 with respect to determinations concerning adjustment assistance to a board consisting of the Secretary of the Treasury, the Secretary of Commerce, and the Secretary of Labor. The committee expects that this board will

issue appropriate regulations, including those with respect to the filing of petitions and the material to be included in such petitions.

The criteria for determining eligibility of firms and workers to apply for adjustment assistance provided in section 302 for the period through July 1, 1968, differ from those contained in the TEA. The TEA provides for adjustment assistance only where the major factor causing serious injury to a firm, or unemployment or underemployment to workers, is an increase in U.S. imports arising in major part as a result of a tariff concession. The bill provides alternative procedures in recognition of the differences between trade agreements under the TEA and the United States-Canadian agreement: First, under the TEA the great majority of tariff reductions are limited to 50 percent and must be staged over a 5-year period, allowing firms and workers time for orderly adjustment to changed competitive conditions. The agreement, on the other hand, provides for an immediate elimination of the entire duty.

Second, the transitional adjustment assistance procedures in the bill take into account the fact that dislocation may result not only from an increase in imports from Canada, but from a loss of the exports of a specific product.

Third, dislocations and temporary injury may occur under the agreement as parts and component supply sources are shifted either within each country or between countries to take advantage of the lower costs and potential improvements in efficiency made possible by the agreement and to carry out the temporary undertakings made by the Canadian producers.

Your committee believes that these unique features of the agreement and the need for especially expeditious adjustment assistance procedures to relieve the effects of dislocations that might occur within the automotive industry during the transitional period, justifies the special procedures incorporated in section 302 of the bill.

### *3. Adjustment assistance related to other agreements (sec. 303)*

Since the bill provides for the possibility of further agreements with Canada covering replacement parts and of agreements on automotive products (including replacement parts) with other countries, the President at the time he transmits to the Congress a copy of any such agreement is to recommend such legislative provisions concerning adjustment assistance to firms and workers as he determines to be appropriate in the light of the anticipated economic impact of the changes in duties. Your committee is advised that after concluding any such new agreement, 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 operation of that agreement.

## C. TITLE IV—MODIFICATIONS OF THE TARIFF SCHEDULES

Section 201(a) of the bill authorizes the President to proclaim the modifications of the Tariff Schedules of the United States (TSUS) provided for in title IV of the bill. Section 401 provides that such modifications shall not enter into force except as proclaimed by the President pursuant to section 201(a).

Title IV sets forth the detailed modifications of the TSUS that the President is authorized to proclaim under section 201(a). A descrip-

tion of the major items covered by the modifications of the TSUS provided for in title IV, including references to the old and new TSUS numbers involved and an estimate of the percentage of total imports into the United States of Canadian automotive products accounted for by each item in the calendar year 1964, appears in appendix C.

The elimination of duties on Canadian automotive equipment is limited to Canadian articles (as defined in the bill) which have 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 are fabricated components intended for use as original equipment in the manufacture in the United States of motor vehicles.

As previously noted, the agreement does not include undertakings for the removal of duties on replacement parts. Your committee has been assured by the executive branch that section 404 of the bill (amending the headnotes to subpt. B, pt. 6, schedule 6, of the Tariff Schedules of the United States) provides a sound basis for the Customs Service to assure that duty-free importation of parts is restricted to those parts which are Canadian articles and which are used as original motor vehicle equipment, and that parts so imported will not be diverted into the replacement parts market without payment of the normal duties.

Under the procedures to be established by the Customs Service, all shipments for which duty-free treatment is claimed will be required to be appropriately certified as to intended use, and the certifying importer will be required to be able to produce an order, contract, or letter of intent from a bona fide motor vehicle manufacturer listed by the Secretary of Commerce indicating that such articles are for use as original equipment in a motor vehicle manufactured in the United States.

These certifications and the documentation of each imported article will enable the Customs Service to conduct effective investigations of actual use on a selective basis at the discretion of the customs officer concerned at the port of entry.

As a further safeguard, the bill provides that if Canadian articles imported duty free as original motor vehicle equipment are not so used, the articles (or their 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 timely arrangements are made with the Customs Service for supervised destruction or exportation of the articles or for the payment of duties which would have been payable at the date of entry if the articles had not been entered as original motor vehicle equipment. The burden of coming forward with payment of appropriate duties upon the change of use is thus placed upon the person responsible for such change.

Taken together, these provisions assure that any importer who might try to profit from duty-free entry of a part by fraudulently certifying it to be for original equipment and then selling it as a replacement part would be subject to prosecution under law, and any subsequent diversion without payment of appropriate duties would render the importer or other person who diverted the article from its intended use liable for the forfeiture of such article or its equivalent value.

## APPENDIX A

### 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 intentions 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 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.

TEXT OF SUPPLEMENTARY EXCHANGE OF NOTE

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.



## APPENDIX B

### LETTERS OF UNDERSTANDING RELATING TO THE UNITED STATES-CANADIAN AGREEMENT

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 broad 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 per-

cent of the growth in their market for automobiles sold for consumption in Canada and by an amount equal to 50 percent of the growth in their market for commercial vehicles sold for consumption in Canada (for this purpose, growth in their market means the difference between the cost of vehicles sold in Canada during the ensuing model year and the cost of vehicles sold in Canada during the base model year net of Federal sales tax in both cases); and (4) undertake, in addition to meeting the above three conditions, to achieve a stipulated increase in the annual Canadian value added by the end of the model year 1968.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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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 an 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 of the Canadian automotive industry and our company's program.

Yours sincerely,

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

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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 shortfall 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 shortfall 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,  
*Ministry 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,

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## PRO FORMA LETTER RESPECTING COMPANY COMMITMENTS

JANUARY 14, 1965.

Hon. C. M. DRURY,  
*Ministry 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.*

## APPENDIX C

### ITEMS COVERED BY THE MODIFICATIONS OF THE TARIFF SCHEDULES OF THE UNITED STATES (TSUS) PROVIDED BY SECTION 405 OF H.R. 9042

Present and (new) TSUS numbers	Major items covered	1964: Estimated per- cent of U.S. imports from Canada (X = less than 1 percent)
692.05 (692.06)	Trucks and buses.....	4
692.10 (692.11)	Passenger cars.....	21
692.20 (692.21)	Bodies and chassis, trucks and buses.....	1
692.22 (692.23)	Bodies and chassis, passenger cars.....	X
692.24 (692.25)	Cast-iron parts, not alloyed and not advanced.....	X
692.25 (692.27, 692.28)	Transmissions, wheels, brake drums, bumpers, radiators, tail pipes, steering gear assemblies, mufflers, etc.	29
360.20-360.70 (361.90)	Textile floor coverings and floor covering underlays made up for automotive use.	X
360.80 (361.90)		
361.80-361.85 (361.90)		
516.71-516.76 (516.98)		
516.94 (516.98)	Mica components for electrical equipment.....	X
646.20 (646.79)	Fasteners (staples, rivets, cotters, cotterpins, screws, bolts, nuts, studs, etc.).	1
646.40-646.42 (646.79)		
646.49-646.78 (646.79)		
652.12-652.38 (652.39)	Timing chains and other chains.....	0
657.09-658.00 (658.10)	Ornaments; decorative trim units, miscellaneous forgings, and castings.	X
682.10-682.40 (682.65)	Electric motors, generators, rectifiers, etc. (primarily small motors.	X
682.55-682.60 (682.65)	Radio, television, photograph, and related equipment.....	0
685.20-685.50 (685.55)	Clocks and parts.....	X
Schedule 7, pt. 2E (721.20)	Furniture and parts.....	X
727.06 (727.07)	Certain components made from nonwoven felts or from bonded fabrics.	X
355.05-355.25 (355.27)		
386.05-389.70 (389.80)	Textile components not specially provided for.....	X
728.05-728.25 (728.30)	Nontextile floor coverings.....	X
745.04-745.74 (745.80)	Buttons, buckles, pins, hooks, slide fasteners, etc.....	X
774.20-774.60 (774.70)	Certain components of rubber or plastics not specially provided for.	X
207.00 (207.01)	Wooden components not specially provided for.....	X
220.45 (220.46)	Desks, washers, etc., of cork.....	X
357.90 (357.91)	Hose of textile fiber.....	X
357.95 (357.96)		
358.02 (358.03)	V-belts.....	X
517.81 (517.82)	Carbon and graphite brushes for generators or motors.....	0
535.14 (535.15)	Ceramic insulators and other ceramic electrical ware.....	0
540.71 (540.72)	Fiber glass components such as insulation panels.....	0
544.17 (544.18)	Certain glass components.....	0
544.31 (544.32)	Tempered glass components, such as windows.....	X
544.41 (544.42)	Laminated glass components, such as windshields.....	X
544.51 (544.52)	Mirrors.....	0
544.54 (544.55)		
545.61 (545.62)	Reflecting lenses and lenses for headlights and taillights....	X
545.63 (545.64)		
547.15 (547.16)	Protective glass components.....	0
610.80 (610.81)	Pipe and tube fittings (e.g., fuel and hydraulic fittings) of steel, copper, aluminum, nickel.	X
613.15 (613.16)		
613.16 (613.18, 613.19)		
615.47 (618.48)	Cable fitted with fittings; wire mesh components.....	X
620.46 (620.47)		
642.20 (642.21)		
642.85 (642.86)		
642.87 (642.88)	Ignition, gas tank, and door locks; hinges; handles; grilles; metal letters and sign plates.	X
646.92 (646.93)		
647.01 (647.02)		
647.05 (647.06)		
652.09 (652.10)		
652.75 (652.76)		

**ITEMS COVERED BY THE MODIFICATIONS OF THE TARIFF SCHEDULES OF THE UNITED STATES (TSUS) PROVIDED BY SECTION 405 OF H.R. 9042—Continued**

Present and (new) TSUS numbers	Major items covered	1964: Estimated percent of U.S. imports from Canada (X—less than 1 percent)	
632.85 (652.84, 652.85)	Suspension springs	5	
632.86 (652.87)	} Other springs	1	
632.87 (652.88, 652.89)			
660.42 (660.43)	Diesel engines	X	
660.44 (660.45)	Spark-ignition engines	16	
660.46 (660.47)	Non-piston-type engines (turbines, etc.)	0	
660.50 (660.51)	} Engine parts (e.g., pistons, cylinders, head, crankshafts, connecting rods).	14	
660.52 (660.53)			
660.54 (660.55)			
660.85 (660.86)	Nonelectric engines and motors, not specially provided for.	0	
660.92 (660.93)	} Fuel, oil, water, and carburetor pumps	X	
660.94 (660.95)			
661.10 (661.11)	} Fans; compressors used in air-conditioning and braking systems.	0	
661.12 (661.13)			
661.15 (661.16)			
661.20 (661.21)	} Air conditioners, refrigerators, and parts	X	
661.35 (661.36)			
661.92 (661.93)			
661.95 (661.96)	} Filtering and spraying equipment	0	
662.35 (662.36)			
662.50 (662.51)			
664.10 (664.11)	Hoists, winches, etc.	X	
678.50 (678.51)	Machinery, not specially provided for	0	
680.20 (680.21)	} Taps, cocks, valves	X	
680.22 (680.23)			
680.27 (680.28)			
680.30 (680.31)	} Balls, rollers, ball and roller bearings	X	
680.33 (680.34)			
680.35 (680.36)			
680.57 (680.58)	Lubrication fittings	0	
680.60 (680.60, 680.91)	Nonelectric machinery parts, not specially provided for	0	
682.70 (682.71)	} Permanent magnets, batteries	X	
682.90 (682.91)			
683.10 (683.11)			
683.15 (683.16)			
683.60 (683.61)	Starting and ignition equipment (mostly starters, generators, and spark plugs).	X	
683.65 (683.66)	Lighting equipment	X	
684.40 (684.41)	Electric heaters	0	
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, resistors	X	
686.10 (686.11)			
686.22 (686.23)	Automatic voltage regulators	X	
686.50 (686.61)	Sealed-beam lamps	X	
686.80 (686.81)	Other filament lamps	X	
687.50 (687.51)	} Electronic tubes, transistors, etc., insulated conductors	X	
687.60 (687.61)			
688.12 (688.13)			
688.40 (688.41)	Electrical articles, not specially provided for	0	
711.84 (711.85)	} Thermostats, oil pressure gages, taximeters, speedometers, odometers, ammeters, etc.	X	
711.90 (711.91)			
711.98 (711.99)			
712.50 (712.51)			
772.65 (772.66)			
772.80 (772.81)			
772.85 (772.86)	} Rubber tubes, gaskets, insulators, leather articles not specially provided for.	X	
773.25 (773.26)			
773.30 (773.31)			
791.80 (791.81)			
791.90 (791.91)			

## MINORITY VIEWS

The bill under consideration implements the United States-Canadian Automotive Products Agreement. It purports to be a measure beneficial to the American economy, helpful to our balance of payments, and of benefit to both American and Canadian consumers. In fact, it does none of these. The hearings have demonstrated that this legislation is special interest legislation of the most restrictive sort, the opposite of free trade, detrimental to our balance-of-payment situation and harmful to American industry and jobs.

The agreement came about as a result of negotiations triggered by Canada's tariff remission plan. This illegal, unilateral action of Canada required, under section 303 of the Tariff Act of 1930, the imposition by the United States of countervailing duties. Our Government properly attempted to settle our complaint with Canada by negotiation and ended up with an agreement whose sole American beneficiaries are the automobile manufacturers in Detroit. There are, in essence, three key parties to the agreement: the United States Government, the Canadian Government, and the four major automobile manufacturers and their Canadian subsidiaries.

The agreement clearly contemplates the exportation of American jobs to Canada. The automobile makers are committed to expand Canadian production by 1968 to a level of \$241 million plus 60 percent of the growth in the Canadian industry. This expanded capacity and its intended employment opportunities can come only out of the United States. This agreement, to expand in Canada rather than in the United States, must have a serious effect upon U.S. labor.

This agreement is equally bad for U.S. business. First and foremost, this agreement opens the vast Detroit market to Canadian parts manufacturers to compete with American businesses without receiving any concessions in return.

However, this is not all. The Canadian subsidiaries have committed themselves to a vast expansion program. One way to satisfy this commitment is the manufacture of parts for use in Detroit as original equipment. Canadian labor is on the average, 70 cents per hour cheaper than comparable American labor. The automobile makers, therefore, have every reason to want to make parts in Canada for shipment to Detroit, getting the benefit of cheaper labor, no import duties, and, at the same time, satisfying their commitment to the Canadian Government. Thus, American parts manufacturers will suffer and American jobs will be lost.

Further, although the agreement does not now reduce duties on replacement parts, the American parts manufacturers will also see their role in the replacement market severely jeopardized. In almost every case, the maker of replacement parts is dependent upon his contracts with Detroit to supply parts for new cars. This, in the industry, is his lifeblood. This is how he receives in advance of the need of replacement parts, still several years away, the specifications

for the parts he will produce, and the money to tool up. Without orders from the automobile makers, he cannot survive.

When the automobile manufacturers themselves, or their chosen affiliates tool up in Canada to make original equipment parts for new cars, satisfying their commitments to the Canadian Government, they will do two things. First, they will deprive the American parts manufacturer of the initial new parts order he needs to get started. Second, once tooled up in Canada to supply parts duty free for new cars to Detroit, they will surely continue to compete in the replacement market in spite of our tariff wall.

The Tariff Commission estimates that over 10,000 independent U.S. businesses supply parts to American automobile manufacturers for use in making new cars.

This agreement has been sold to Americans as free trade. It is not. It is the antithesis of free trade. It removes tariffs, not generally, not even with one nation, but only for a chosen few automobile manufacturers. The Canadian duty on American automobiles is not removed. A dealer in Montana or Maine cannot sell duty-free across the border in Canada. Only an automobile manufacturer can import into Canada free of the 17½ percent Canadian tariff. Not only that, it must be a qualified manufacturer; i.e., one who has provided satisfactory commitments to the Canadian Government.

U.S. duties are not lowered for the benefit of everyone. Parts may be imported duty free only if they are going to an automobile manufacturer. The dealer or supplier who would attempt to sell Canadian made parts to automobile supply stores or automobile repair businesses, or directly to American consumers, must still pay the tariff. This is not free trade and it does not benefit American consumers. Basically, it benefits only a few automobile manufacturers.

It should be noted that qualified manufacturers can designate other companies to help meet their commitments. These other companies will also get the special benefits provided. Thus, this agreement encourages the privileged companies to designate other parties to set up assembly plants in Canada. Thus encouraged by the special treatment, parts manufacturers themselves will in some cases undoubtedly move to Canada.

With regard to our balance of payments, the Assistant Secretary of International Affairs for the Treasury Department, the Honorable Merlyn N. Trued, testified that in 1964 we had a favorable trade surplus with Canada of \$581 million. He further testified that under this agreement, we would retain that surplus, i.e., in 1968 our trade surplus is estimated to be, under the agreement, \$580 million. He failed to say that it is estimated that, had the Canadians been persuaded to drop their illegal tariff remission scheme, our trade surplus with Canada would have reached \$841 million by 1968. Further, had we done nothing at all in the face of their remission scheme, our surplus would have been \$650 million.

In other words, from a balance of payments point of view, in protesting the drop from \$850 million to \$650 million, the State Department negotiated us down to \$580 million.

Further, this agreement admittedly puts us clearly in violation of the GATT agreement. Our whole trade policy since the early 1930's has been to reduce trade barriers. The keystone of this policy is the "most-favored-nation" concept. Concessions given to one trading

partner are given to all. At the present time, the United States has unconditional most-favored-nation commitments to the GATT. We face severe trading problems in the coming Kennedy round. To violate our agreement at this time, to present the world with a fait accompli and ask for waivers afterward, shows a lack of faith which cannot help but have world repercussions.

It is said that this agreement will help our relations with Canada. It can do nothing but earn us the resentment of the Canadian people. The Canadian taxpayer will lose, under this plan, \$50 million of tariff subsidy to these corporations. However, it has been revealed in the hearings that the benefits of increased production, greater efficiency, lower tariffs, and all the other benefits the agreement will bring, will not be passed on to the Canadian consumer in the form of lower prices.

The undersigned are for equitable trade agreements which lead to mutual benefits and mutual prosperity. In this case, we have given up the \$241 million guaranteed increased production plus 60 percent of the increase over 1964 production. We have also guaranteed maintenance of the level of Canadian value added in 1964. We have in effect closed the Canadian market to us. We opened the U.S. market and got nothing in return. We have taken our Canadian problem, in which we are the injured party and Canada is the violator of international agreements, and negotiated an agreement which extinguishes the Canadian violation and places the United States in violation. We have negotiated away our problem with Canada and negotiated ourselves into a problem with 75 free world members of GATT. We pay for these privileges with a worsened balance-of-payments situation. The undersigned recommend that the U.S. Senate not be a party to such an agreement.

ABRAHAM RIBICOFF.  
VANCE HARTKE.  
ALBERT GORE.

