

CANADIAN AUTOMOBILE AGREEMENT

1881-4

HEARING
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
NINETIETH CONGRESS
SECOND SESSION

JULY 19, 1968



Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1968

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CONTENTS

WITNESSES

Automotive Service Industry Association, William C. McCamant, Washington representative.....	Page 50
Chrysler Corp., Highland Park, Mich., Brian T. O'Keefe, manager, Special Studies and Defense Administration.....	42
Ford Motor Co., Rodney W. Markley, Jr., vice president, Washington staff.....	47
General Motors Corp., Detroit, Mich., Henry W. Welch, general assistant comptroller.....	37
Katz, Julius L., Deputy Assistant Secretary for International Resources and Food Policy, Department of State, accompanied by—	
Smith, Edward G., Director, Office of Producer Goods, Business and Defense Services Administration, Department of Commerce; and	
Eaton, Edgar I., Director, Office of Foreign Economic Policy, and Executive Secretary, Automotive Agreement Adjustment Assistance Board, Department of Labor.....	2
Markley, Rodney W., Jr., vice president, Washington staff, Ford Motor Co.....	47
McCamant, William C., Washington representative, Automotive Service Industry Association.....	50
O'Keefe, Brian T., manager, Special Studies and Defense Administration, Chrysler Corp., Highland Park, Mich.....	42
Welch, Henry W., general assistant comptroller, General Motors Corp., Detroit, Mich.....	37

ADDITIONAL INFORMATION

Committee on Finance Staff Analysis of the Second Annual Report of the President to the Congress on the Automobile Products Trade Act of 1965.....	63
Departments of Commerce and State comments on the staff analysis.....	75
Responses to questions submitted in writing by the committee:	
Chrysler Corp.....	87
Departments of State and Commerce, joint response.....	81
Ford Motor Co.....	92
General Motors Corp.....	83, 97
Reuther, Walter P., president, International Union, United Automobile, Aerospace and Agricultural Implement Workers of America, UAW, statement submitted.....	57

CANADIAN AUTOMOBILE AGREEMENT

FRIDAY, JULY 19, 1968

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

The committee met, pursuant to notice, at 10:15 a.m., in room 2221, New Senate Office Building, Senator Clinton P. Anderson presiding.

Present: Senators Smathers, Anderson, Gore, Hartke, and Curtis.
Senator ANDERSON. This hearing will come to order.

This hearing has been called to enable the Committee on Finance to inquire into the operation of the Canadian Automobile Agreement. This agreement has been in effect now for 3 years. Pursuant to law, the President has submitted to Congress two annual reports describing the operation of this agreement. The second annual report indicates the favorable balance of trade in the automotive industry was less than Congress anticipated at the time legislation was enacted to implement the agreement.

At Senator Gore's request the staff of the committee summarized the second annual report. This summary is published on page 74 of the record of the hearings before this committee on foreign travel tax legislation. A statement responding to the staff's summation, prepared by the executive branch, is also published in that hearing. I think it might be well to have these documents printed in today's hearing.

(The documents referred to appear as appendix A, p. 61.)

Senator ANDERSON. By the terms of the agreement a review of the operation of the agreement must be undertaken by this country and Canada this year. Perhaps it would be well for the administration witness this morning to report to the committee on the progress of this review.

Our first witness this morning will be the Honorable Julius L. Katz, Deputy Assistant Secretary of State for International Resources and Food Policy. He will be followed by spokesmen for the major automobile companies and by a witness representing the automotive parts industry.

Mr. Katz, we welcome you.

STATEMENT OF JULIUS L. KATZ, DEPUTY ASSISTANT SECRETARY OF STATE FOR INTERNATIONAL RESOURCES AND FOOD POLICY; ACCOMPANIED BY EDWARD G. SMITH, DIRECTOR, OFFICE OF PRODUCER GOODS, BUSINESS AND DEFENSE SERVICES ADMINISTRATION, DEPARTMENT OF COMMERCE; AND EDGAR I. EATON, DIRECTOR, OFFICE OF FOREIGN ECONOMIC POLICY AND EXECUTIVE SECRETARY, AUTOMOTIVE AGREEMENT ADJUSTMENT ASSISTANCE BOARD, DEPARTMENT OF LABOR

Mr. KATZ. Mr. Chairman, I am pleased to have this opportunity to discuss with your committee the operation of the United States-Canada Automotive Products Agreement. This agreement has now been in effect for 3½ years. In that time major strides have been made toward the objectives stated in the agreement.

—the creation of a broader market for automotive products within which the full benefits of specialization and large-scale production can be achieved.

—the liberalization of United States and Canadian automotive trade with respect to tariff barriers and other factors impeding trade to enable the industries of both countries to participate on a fair and equitable basis in the expanding total market of the two countries.

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

Progress in this initial period under the agreement has been impressive. We have had:

—substantial progress toward the rationalization of production and the integration of operations by parts and vehicle manufacturers.

—an enormous expansion of trade between the two countries in automotive products.

—increased employment in both countries in automotive production.

—agreement by labor and management to achieve by mid-1970 wage parity between United States and Canadian workers in automotive production.

—and a significant narrowing of the disparity in prices of automobiles in the two countries.

Mr. Chairman, because I wish to keep this statement brief, I will not here describe the unique characteristics of the North American automotive industry nor repeat the background of events which led to the conclusion of the automotive agreement. These points were described in detail in the hearings before this committee in 1965 and they are summarized in the first and second annual reports of the President on the implementation of the Automotive Products Trade Act.

I do, however, wish to address myself to a number of criticisms that have been directed at the agreement. I would like to discuss these criticisms and then respond to any questions the committee might have.

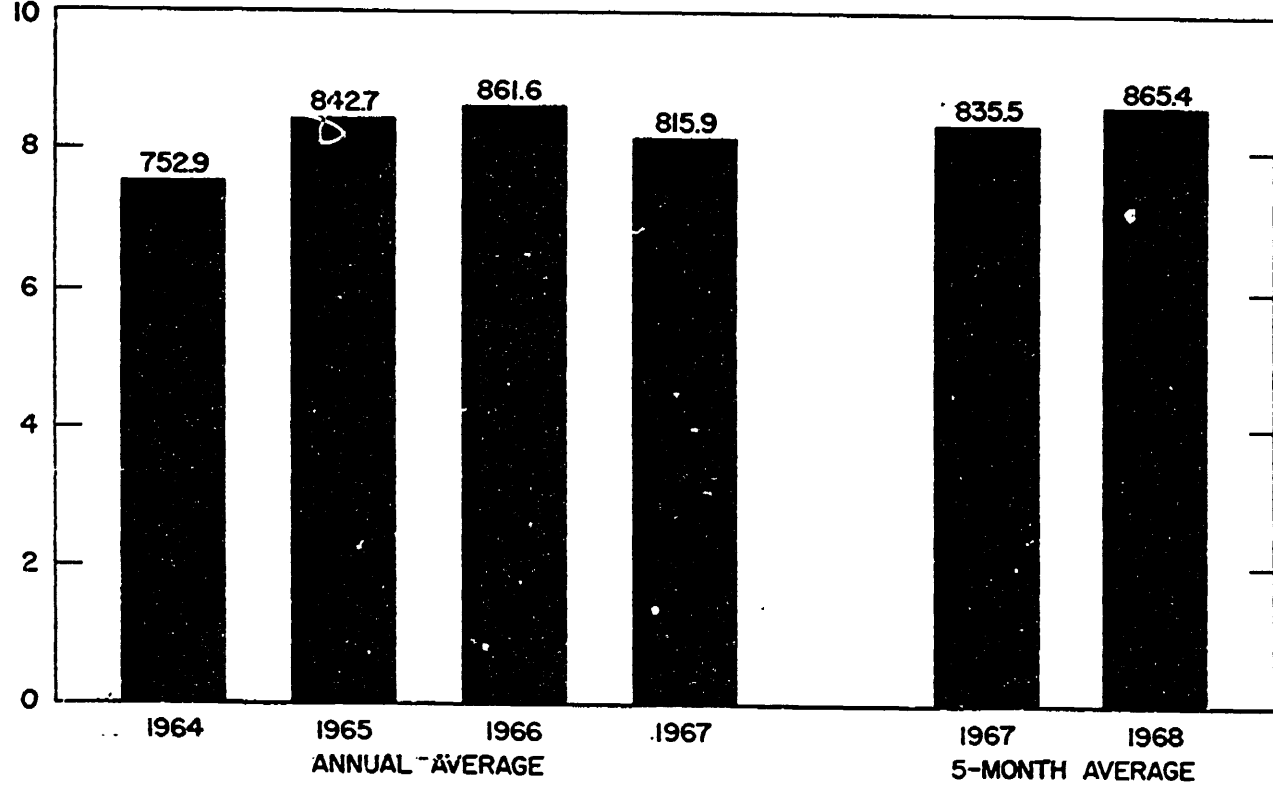
EMPLOYMENT

It has been suggested that employment in the motor vehicle industry has declined in the United States while employment in Canada has increased. These effects have been attributed to the operation of the agreement. In fact, Mr. Chairman, employment in the motor vehicle and equipment industry has increased in both countries. In chart I, you will see that from 1964 to 1966 average annual employment in the United States increased by 108,000 workers from 753,000 to 861,000. In Canada in this period, employment increased by 15,000 workers, from 69,000 to 84,000. In 1967, U.S. employment declined to an annual average of 816,000 but this was due to the protracted strike at the Ford Motor Co. in September and October 1967 and, more importantly, to the 13 percent decline in U.S. motor vehicle production in 1967. In Canada, employment declined by about 1,000 workers in 1967.

CHART I

U.S. EMPLOYMENT IN THE AUTOMOTIVE INDUSTRY

ALL EMPLOYEES—IN THOUSANDS



Mr. KATZ. If you will again look at chart I, you will see that the loss in 1967 has been recovered. Employment in the first 5 months of this year is at a level of 868,000, or 33,000 higher than the comparable period in 1967.

Mr. Chairman, the figure on the chart shows only 865.4 thousand. That has been revised upward to 868 thousand with the acquisition of more recent data.

It was recognized at the outset that the agreement might result in some dislocations to firms or workers in the industry; therefore, a special adjustment assistance program was provided in the Automotive Products Trade Act. Through June 1968, no firms, and only a very small portion of the workers in U.S. automotive plants, were dislocated and applied for adjustment assistance. Approximately 2,500 workers have been certified by the Automotive Assistance Board as eligible for adjustment assistance. Only 1,850 of these workers actually applied for and received benefits. Most of these were either recalled by their former employers or found new jobs within a short period of time. At the present time, less than 300 are still drawing benefits.

The automotive industry is one which normally has large fluctuations in employment because of both annual model changes and sensitivity to market conditions. During the 3 years 1965-67, there were almost 400,000 workers laid off in the U.S. industry for one or more weeks but only 2,500 could trace their layoff to the operation of the agreement.

In Canada, where a somewhat similar adjustment assistance program has been offered, there have been as of April 30 of this year applications for assistance by some 8,400 workers and some 6,000 have been certified eligible. Employment in the Canadian automotive industry is about one-tenth of that in the U.S. industry.

Since there may be further dislocations as a result of the operation of the agreement—however few in number, and we do not anticipate that there would be very many—the President recommended in his trade message of May 28, 1968, that the adjustment assistance program be extended for 3 more years and included such a provision in the proposed Trade Expansion Act of 1968.

TRADE BALANCE

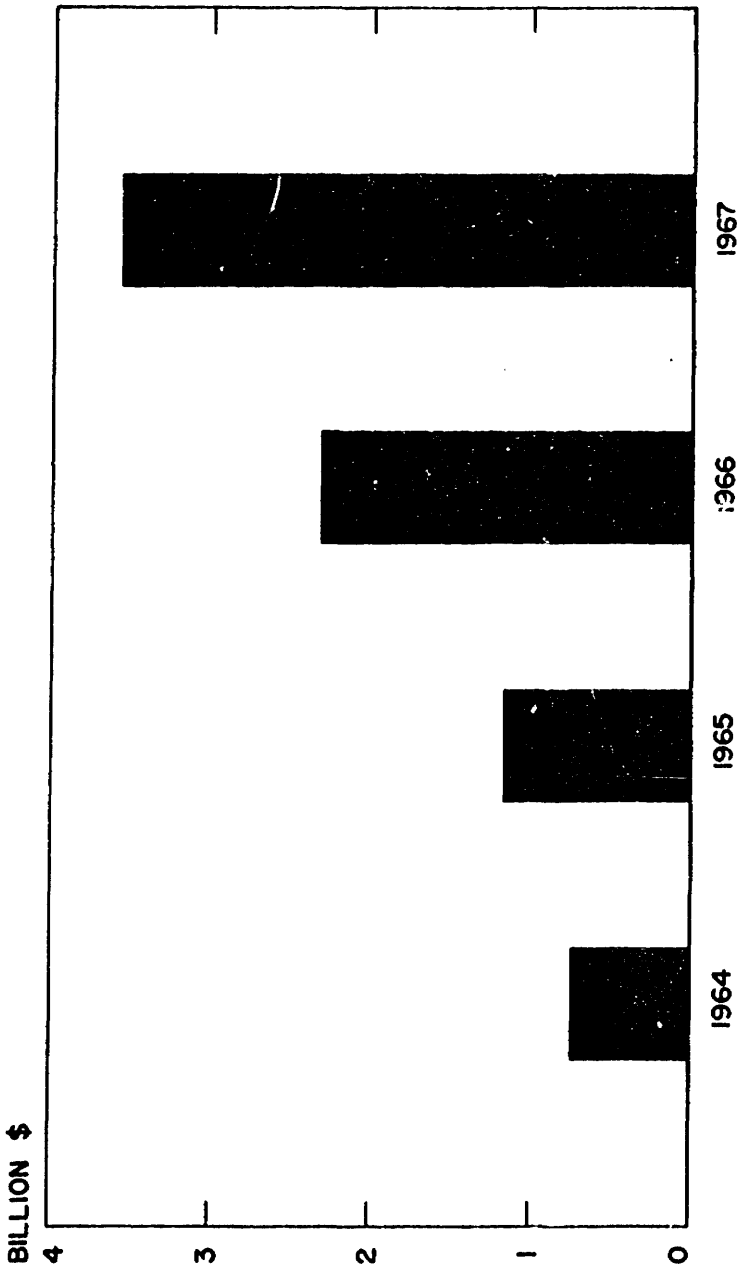
Another criticism leveled at the agreement is that it has been responsible for the disappearance of our trade surplus. In testimony before this committee in 1965, administration witnesses estimated that the U.S. export surplus in automotive trade with Canada would continue at approximately the half billion dollar level which then existed. This estimate was based on a projected 8 percent annual growth rate in the number of automotive units sold in Canada. This projection was considered to be realistic in the light of the very high rates of growth which had prevailed in Canada over the previous 5 years.

What in fact happened?

The trade surplus has not disappeared.

Chart II shows the growth of automotive trade with Canada in the period 1964-67. As you can see the increase in trade has been spectacular. From total trade of \$730 million in 1964 the trade increased to about \$3½ billion in 1967. Our exports alone grew from \$650 million in 1964 to over \$2 billion in 1967.

TOTAL AUTOMOTIVE TRADE BETWEEN U.S. & CANADA



BASED ON U.S. & CANADIAN IMPORT STATISTICS

Mr. KATZ. This does not include U.S. exports of other nonautomotive products such as machinery, chemicals, paint, et cetera, which have increased appreciably, but which cannot be measured precisely in relation to the agreement.

A further chart which, Mr. Chairman, you don't have before you but we have on the easel shows the growth of trade in this 3-year period, showing the exports, imports and the area between representing the surplus.

U.S./CANADA AUTOMOTIVE TRADE ^{1/}

MILLION \$

2,000

1,500

1,000

500

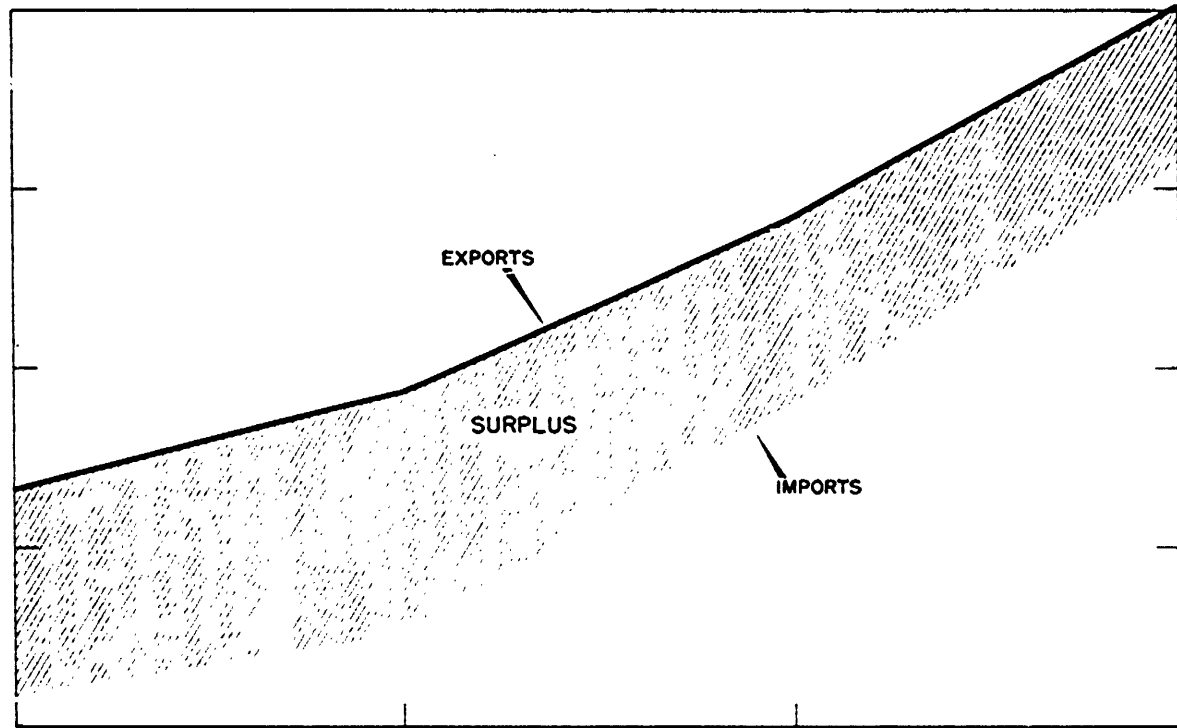
0

1964

1965

1966

1967



^{1/} BASED ON U.S. & CANADIAN IMPORT STATISTICS

Mr. KATZ. In 1965, our export surplus increased by about \$100 million to \$682 million. In the 2 years after 1965, the trade surplus has narrowed. This narrowing has resulted primarily from the fact that, not only has the Canadian market not grown as it had in earlier years and as we had anticipated, but has actually declined. Sales in 1966 increased by only one-half of 1 percent over 1965. In 1967, sales fell by 3 percent over the previous year and in the first 4 months of this year motor vehicle sales showed only a 1 percent rise over the same period last year.

This is shown in chart III, which is a table comparing actual rates of growth of sales of automotive vehicles in Canada with the surplus. You see in 1965 the large increase in sales and a large surplus. Actually it went up about \$100 million from 1964. The market declined since that time as did our trade surplus.

CHART III.—GROWTH RATES OF CANADIAN RETAIL VEHICLE SALES AND NET UNITED STATES-CANADA AUTOMOTIVE EXPORTS

	Annual growth (percent)	Net U.S. automotive exports ¹ (millions)
1960.....	2.5	(0)
1961.....	3.6	(0)
1962.....	25.1	(0)
1963.....	18.7	(0)
1964.....	9.5	(0)
1965.....	14.6	\$682.4
1966.....	.5	526.8
1967.....	-3.0	439.1
1968 (January-April).....	1.0	113.6
Compound growth rate:		
1960-64.....	13.9	.....
1965-67.....	-1.0	.....
Average export surplus: 1965-67.....	.....	549.4

¹ Based on United States and Canadian Import statistics.

² Not available.

Mr. KATZ. Just as a parenthetical note, Mr. Chairman——

Senator SMATHERS. I apologize for getting here a little late and some of this I don't understand but the agreement took effect in what year?

Mr. KATZ. 1965, sir.

Senator SMATHERS. In 1962, the annual growth you have on the chart was 25.1 percent. Is that what they sell to us?

Mr. KATZ. No, sir. Those are sales in the Canadian market; that is, that represents the increase in the Canadian market alone.

Senator CURTIS. Sales by whom?

Senator SMATHERS. Selling to themselves or selling to someone else? Who is selling to whom?

Mr. KATZ. Canadian dealers selling vehicles—automobiles and trucks—to Canadian purchasers.

Senator SMATHERS. So these are just Canadians selling to Canadians.

Mr. KATZ. Yes, sir, and of course this may include U.S. products. This is without regard to the origin of the product.

Senator SMATHERS. In other words, in 1962, there were a lot of cars that Canadians sold to Canadians, no matter where they came from—an increase of 25.1 percent over the previous year. But this dropped

off to 18 percent in 1963, down further to 9.5 in 1964; in 1965, when the agreement went into effect it went up to 14.6 and the next year it dropped off to just a half a percent. The next year after the agreement they didn't increase their sales at all; they had a minus 3 percent.

Mr. KATZ. Yes, sir. I would like to make clear this follows to some extent the pattern of the market in the United States. You may recall that 1965 was a very good year for sales of automobiles in the United States. In 1966 it dropped off somewhat. In 1967 I believe there was a decline of almost 2 million automobiles compared with 1965.

Senator SMATHERS. So what you are saying is that the Canadian Auto Agreement really had no appreciable effect either way.

Mr. KATZ. On sales.

Senator SMATHERS. Is that right?

Mr. KATZ. Yes, sir, on sales to consumers. This represents sales to consumers, and what this chart is intended—

Senator SMATHERS. Who else do you sell to if you don't sell to consumers? What are you talking about? You say sales to consumers.

Mr. KATZ. I am trying to show in this chart the relationship between the growth of the market in Canada and our export surplus. The reason for that relationship is that since Canadian production of vehicles and parts, automotive products, is increasing, unless sales also increase in the Canadian market, our export surplus or the amount of exports that we direct toward Canada as compared with our imports will not be maintained at the same rate, because Canadian production will be capturing an increasing share of the market.

If the market, however, grows, and we estimated in 1965 that if the Canadian market grew by 8 percent, our surplus would be maintained at about a half billion dollars.

What this chart shows, Senator, is that our estimate was wrong. The Canadian market did not grow by 8 percent. In fact it declined, and our export surplus therefore declined also.

Senator SMATHERS. All right, sir. Thank you. Excuse me for interrupting.

Senator ANDERSON. You said it did operate in the same fashion in this country.

Mr. KATZ. Yes, sir, our market shows a somewhat similar trend. That is; the sales fell off in 1966 compared with 1965, and fell off further in 1967.

Senator ANDERSON. Do you recommend any change in policy on that basis?

Mr. KATZ. No, sir, because I think the sales in the market really are not a function of the agreement. They are a function of consumer demand, and to some extent of fiscal policy, credit policy.

Senator ANDERSON. All right.

Senator HARTKE. Mr. Chairman, may I ask a question? Mr. Katz, with reference to the chart, you have referred to an annual growth as a percentage. Does that represent only Canadian growth?

Mr. KATZ. Yes, sir. It is the growth of the Canadian market compared with our export surplus.

Senator HARTKE. And what are you trying to show by use of the chart? Have you covered that in your statement yet?

Mr. KATZ. Yes, sir, I believe I have.

Senator HARTKE. The average export surplus to which your refer; that is, the export surplus for parts—are you trying to show that there has been an increase in export of parts to the United States or just to Canada?

Mr. KATZ. Sir, that represents all automotive trade taken together, that is cars, trucks, commercial vehicles, and parts. The column on the right represents the excess of our exports over our imports.

Senator HARTKE. I thought when this agreement went into effect that its purpose was to increase the overall growth rate not alone in the United States but the growth rate inside Canada as well. Wasn't that the purpose of the agreement?

Mr. KATZ. Yes, sir. I think one of its objectives——

Senator HARTKE. And it failed.

Mr. KATZ (continuing). Which I referred to in the first part of my statement was the creation of a broader market.

Senator HARTKE. I thought you just said a moment ago that this wasn't the purpose. Now is it or is it not the purpose?

Mr. KATZ. I said that was one of the purposes.

Senator HARTKE. I believe you said that a growth or increase in sales was the purpose.

Mr. KATZ. I said one of the purposes of the agreement was to create a broader market for automotive products.

Senator HARTKE. As Senator Smathers said, the market has to be sales and sales have to be to consumers. I thought you agreed that the purpose of the agreement was to increase sales growth, but then you said earlier that it was not the purpose of the agreement to increase sales. Can you distinguish that point?

Mr. KATZ. Yes, sir. I don't believe I made the last statement. I said that I didn't attribute the decline in the market, either in the United States or in Canada, to the operation of the agreement. Rather I think that is the result of credit policy to some extent. I think there are also some cyclical factors involved in this.

Senator HARTKE. Credit policies of which country?

Mr. KATZ. I think of both countries, sir.

Senator HARTKE. And what do you mean by that?

Mr. KATZ. I mean higher interest rates.

Senator HARTKE. Higher interest rates.

Mr. KATZ. Yes, sir.

Senator HARTKE. Followed by what? You said credit policy. There are high interest rates in both countries.

Mr. KATZ. I think as a matter of fact interest rates have certainly increased.

Senator HARTKE. I know they have increased, but is that the policy of our country?

Mr. KATZ. I think to some extent it is.

Senator HARTKE. You said policy.

Mr. KATZ. To some extent it is, sir, when the Federal Reserve decides to increase the rediscount rate. I believe that is a matter of policy.

Senator HARTKE. That is here. Now, what about Canada?

Mr. KATZ. There have been somewhat similar developments in Canada. There have been inflationary trends in Canada which the Government there has attempted to deal with by increasing discount rates.

Senator HARTKE. Let me tell you, Mr. Katz, what—

Mr. KATZ. And also there have been some tax increases.

Senator HARTKE. I do not want to get off on another subject but I want to tell you where you are running into difficulty with your own administration. The fact is that there has been this great outcry about excessive growth in the economy, overheating of the economy for which a tax increase was enacted to cool it down. Now you come here, you see after the tax increase is enacted and you tell us, in effect, that there has been a substantial drop in sales and growth in one of the major industries in the United States. I don't want to pursue this this morning. I will come back to it at a later date but I want to show that the right hand of the Government doesn't know what the left hand is doing. This is what some of us have been saying for some time. The deeper you make this hole for yourself the more difficulty you cause for the administration. Ultimately it shows what a great contradiction in policy we have in this Government.

Mr. KATZ. Senator, I am trying hard not to dig myself into a hole.

Senator HARTKE. You are not digging yourself a hole. You are digging a hole for the administration as regards its contradictory policies of economic growth and taxation.

Mr. KATZ. I am going to try very hard to avoid doing that, too, but all I have been trying to say is that as a matter of fact sales have declined.

Senator SMATHERS. Sales of automobiles have declined?

Mr. KATZ. Yes, sir; and I think you can see that on the chart that we have just put up on the easel.

In 1964 there were 8.9 million vehicles sold in the United States, in 1965 it went up to 10.3. In 1966 it went down to 9.9, and in 1967 it dropped to 9 million, or as I earlier had said almost 2 million, actually it was about 1.3 million less than it was in 1965.

NORTH AMERICAN VEHICLES¹

RETAIL SALES

	United States	Canada
1964	8,967,900	657,600
1965	10,302,000	753,800
1966	9,995,800	757,600
1967	9,091,400	738,400
1967 (Jan.-April 1967)	2,964,000	249,000
1968 (Jan.-April 1968)	3,427,800	250,200

¹Vehicles assembled in U.S. and Canada.

Mr. KATZ. In Canada the trend has been slightly different. As you see, it went up in 1965, it went up slightly, actually one-half of one percent in 1966 and then dropped in 1967. May I continue my statement, Mr. Chairman?

Senator HARTKE. May I go back for a moment? When this agreement was placed before the Senate, it was represented that it would increase the ultimate growth in the automobile industry, not alone in Canada but in the United States, isn't that true?

Mr. KATZ. No, sir.

Senator HARTKE. No, that is not true?

Mr. KATZ. No, sir. I think that was not the primary purpose of the agreement.

Senator HARTKE. Was that the stated—

Mr. KATZ. One of the objectives was to create a broader market, and I think in fact that we were thinking of increased growth in Canada, but we did not expect that the agreement could affect growth very much in the United States. We were talking about a broader market for automotive products.

Senator HARTKE. A broader market. What is a broader market? A broader market means more sales, more production, doesn't it?

Mr. KATZ. Yes, sir; and we were thinking primarily of the Canadian market. We felt that there was real potential for expansion of the Canadian market, where second cars were not as prevalent as they were in the United States, which had shown very large increases in growth in prior years.

As was shown in chart III, from 1962 to 1965 the rates of growth in Canada were very large. There still is a great deal of potential for expansion of the automotive market in Canada, and it is that that we were thinking of.

Senator HARTKE. Yes. Just so we are clear, you say expanded growth was not the purpose, but this was the intended result, is that right?

Mr. KATZ. One of the objectives was a broader market; yes, sir.

Senator ANDERSON. Continue with your statement.

Senator HARTKE. Mr. Chairman, I would like to do that. But Mr. Katz is back into a situation where I think it is very clear that his statement is inconsistent with representations of the administration when the enabling legislation to implement this agreement was before this committee in September of 1965. I refer to the transcription of those hearings at page 149 where then Secretary of Commerce Conner stated, in answer to a question propounded by Senator Douglas, that the purpose of the agreement was to increase growth and sales. I quote Secretary Conner:

Yes, sir. We think that is as it is now projected that there will be an increased growth in the Canadian automobile market of about 8 percent a year compared with the expected growth in the United States of, say 3 percent a year, but in making that estimate there is the expectation that over a period of time, particularly after the transition period, automobile prices in Canada will be more nearly approximate to the prices of automobiles in the United States.

In other words, there will be a downward trend in prices. Those are the statements from Mr. Connor. But what you are saying here—

Mr. KATZ. I don't disagree with that at all, sir.

Senator HARTKE. What you are saying is this is what you expected, and now you are telling us that your expectations didn't come true, and you are explaining why they didn't come true, is that right?

Mr. KATZ. Yes.

Senator HARTKE. All right, then I will be glad to stop.

Senator SMATHERS. Could I add one question?

What you are saying is that the reason they didn't come true was because of the general economy of both countries, that it is down in both countries, is that correct?

Mr. KATZ. Yes, sir; and I would make the additional point that we are dealing with a very short period of time here. We are dealing with 3 years, and I think if you trace the pattern of sales back over a decade or more, I think you will find that there is a kind of a cycle in this industry. There is a spurt in sales and then they tail off, and then they go on to new and higher levels.

Senator SMATHERS. In other words, you are still optimistic even though the figures at this moment don't support that?

Mr. KATZ. Yes, sir; I am.

Senator SMATHERS. But the actual figures don't show that what was expected by Secretary Connor actually materialized. The figures don't bear out his optimistic approach to it.

Mr. KATZ. Yes, sir.

Senator SMATHERS. You are justifying it on the general economy with respect to automobiles in the Western Hemisphere, which was down.

Mr. KATZ. Yes, sir.

Senator SMATHERS. Is that what you are saying?

Mr. KATZ. Yes.

Senator SMATHERS. All right.

Mr. KATZ. Mr. Chairman, I would like to make clear that all of the trade figures I have referred to and those which are shown on the charts we have exhibited are on an import-import basis. In other words when we speak of U.S. exports we are, in fact, using Canadian import data. As was pointed out in the second annual report of the President and in the analysis of that report prepared by the staff of your committee, we believe that the import-import figures most closely and accurately measure automotive trade between the United States and Canada.

PRICES

Another complaint directed at the agreement is the fact that prices of automobiles in Canada continue to be higher than identical models sold in the United States. I might add here that this is a complaint which is more often heard in Canada than in the United States.

At the time the agreement was concluded, there was a substantial price differential between cars sold in the United States and those sold in Canada. This resulted from the higher cost of production in Canada. It was expected that the operation of the agreement would lower costs in Canada over a period of years and that the price differential would be steadily narrowed.

The differential has, in fact, been narrowed but not yet eliminated.

Price comparisons are at best difficult because of changes in optional equipment, dealer pricing practices, and year-to-year model changes. However, taking factory list prices of three representative models, leaving aside the different United States and Canadian excise taxes,

we find that between 1964 and 1967 the differentials in the case of one model has been reduced from 9.6 to 5.7 percent.

Senator HARTKE. Mr. Katz, can you identify what model that was?

Mr. KATZ. Yes, sir; I can. That is a four-door sedan, six cylinder with comparable standard equipment in the United States and in Canada.

Senator HARTKE. What model, what make car?

Mr. KATZ. Senator, we don't have it here. We can supply that for the record. This is taken out of the second annual report on pages 40, 41, and 42.

Senator ANDERSON. The Senator asked for the certain model.

Senator HARTKE. The name and model.

Mr. KATZ. I can identify it by the type of model. I can't give you the trade name. Senator, I assume you want the trade name?

Senator HARTKE. In other words, a four-door sedan. I want to know what make car.

Senator ANDERSON. You don't have that information?

Mr. KATZ. We don't have that with us this morning, sir, but we will supply that for the record.

(The information referred to follows:)

1. Table 9(a), page 40, *Second Annual Report of the President to the Congress on the operation of the Automotive Products Trade Act of 1965, May 17, 1968*: The popular model, 4-door sedan, 6 cylinder automobile is the Plymouth Vallant.

2. Table 9(b), page 41: The popular model, 4-door sedan, 8 cylinder automobile in the Ford Custom.

3. Table 9(c), page 42: The popular model, 2-door hardtop, 8 cylinder automobile is the Buick Riviera.

Mr. KATZ. In a second case, the differential has been reduced from 9.2 to 5.9 percent. In the third case, the highest price vehicle, the differential was narrowed from 30.4 to 8.7 percent.

The price gap at the retail level has also been reduced but the increase in Canadian sales tax and different dealer discounting practices tend to mask somewhat the narrowing of the price differential which has occurred at the manufacturers level. As I said, full data on the prices of the three models I have referred to is contained on pages 40 to 42 of the second annual report of the President.

Senator HARTKE. But you will give us the full information, not that merely included in the report?

Mr. KATZ. Yes, sir; you mean the trade name of the vehicle.

Senator HARTKE. I want to know what kind of car it is, yes.

Mr. KATZ. Yes, sir.

REVIEW OF THE AGREEMENT

As the committee is aware, provision was made in the agreement for a joint comprehensive review to be undertaken by the two governments, no later than January 1 of this year. The purpose of the review was to provide an opportunity for the two governments to examine progress made toward achieving the agreement's objective. During the review, the two governments were also to consider such further steps as might be necessary or desirable for the full achievement of the objectives.

The joint review began with a meeting in Washington last December. Several further meetings were held during the winter and spring

to discuss further possible broadening of the products covered by the agreement, customs administration, and trade statistics. Consideration of these subjects has in general been completed and it appears unlikely that any significant changes in the agreement will be recommended as a result of the review.

Because of the dissolution of Parliament and the national elections in Canada there was an interruption in our joint review with the Canadian Government, and we have not yet been able to conclude the joint review. A full report will, of course, be sent to the Congress by August 31 as required under section 205(a) of the act.

We recognize that a major point of issue during congressional consideration of the act in 1965 and a matter of continuing interest to the committee is the undertaking which the Canadian motor vehicle manufacturers entered into with the Canadian Government. These letters of undertaking, which were apart from and wholly outside the agreement, provided for certain increases in Canadian value added to be achieved by the 1968 model year, which ends this month.

Section 205(b) of the Automotive Act requires that a special report to Congress be made:

Whenever the President finds that any manufacturer has entered into any undertaking, by reason of governmental action, to increase the Canadian value added of automobiles, buses, specified commercial vehicles, or original equipment parts produced by such manufacturer in Canada after August 31, 1968.

We have no information or reason to believe that any manufacturer has entered into new undertakings to increase Canadian value added.

Mr. Chairman, we believe the agreement has worked. It has benefited this country and Canada. While 3 years is a relatively brief period of time to bring about changes envisaged by the agreement in an industry of the size and importance of this one, we believe that the progress already recorded in the initial period is encouraging. Dislocations have been minor and fewer than might have been anticipated. We have moved toward the concept of a North American automotive industry and market.

Thank you, Mr. Chairman.

Senator ANDERSON. Senator Curtis.

Mr. KATZ. Mr. Chairman, if I may, I would like to identify the gentlemen that are with me.

Senator ANDERSON. Yes, indeed.

Mr. KATZ. On my right is Mr. Edward G. Smith, Director of the Office of Producer Goods in the Business and Defense Services Administration, Department of Commerce, and on my left is Mr. Edgar Eaton, Director of the Office of Foreign Economic Policy of the Department of Labor, and also Executive Secretary of the Automotive Agreement Adjustment Assistance Board.

Senator CURTIS. Mr. Chairman, I would like to inquire concerning the last paragraph on page 9. Just what does that mean? I don't quite understand it, "By reason of Canadian value added of" and so on.

Mr. KATZ. Senator, I think there was a feeling in 1965—

Senator CURTIS. But I don't know what the term means.

Mr. KATZ. I think what it means is that if the vehicle manufacturers enter into an undertaking or an arrangement as a result of action by the Canadian Government, the Congress wants to know that. I think that is what the provision means.

Senator CURTIS. What does the language "to increase the Canadian value added" mean?

Mr. KATZ. I am sorry, Senator, what that means is to increase Canadian production.

Senator CURTIS. Does this agreement in any way involve replacement parts?

Mr. KATZ. No, sir; it does not. Replacement parts are specifically excluded from the agreement. The agreement covers automobiles, trucks and certain commercial vehicles which are specified, buses, and original automotive equipment. In other words, parts for assembly into new vehicles.

Senator CURTIS. The manufacturer who makes parts for garages, filling stations and so on for repairing or reconditioning cars are not affected by this agreement?

Mr. KATZ. No, sir.

Senator CURTIS. Now, what manufacturing processes or articles were manufactured in Canada, have been moved to the United States, and vice versa? What prior to this agreement were manufactured in the United States and is now manufactured in Canada?

Mr. KATZ. Senator, that is an enormous question, because every year there are a great many changes in sourcing that take place on the part of individual companies. A vehicle manufacturer may buy from one company one year and then they shift to another supplier another year. He may use his own in-house facilities for production of the item another year, and he may go outside the corporation in still another year. Now, obviously there have taken place as a result of the agreement changes in sourcing. There are certain parts, and one of the most easy, I guess, one of the easiest ways and most readily available way to identify this is to look at the adjustment assistance cases, all of which involve some dislocation of production.

The vehicle manufacturers themselves in taking advantage of the agreement have reduced the number of models that they produce in Canada. I understand they will be testifying later on today, and they can tell you this in greater detail, but whereas they used to produce in Canada some 350 models, they have greatly reduced that number, so that certain models are exported into the United States and certain models produced in the United States are exported back into Canada. I am afraid that is not a very satisfactory answer.

Senator CURTIS. I will put it another way.

Of the people, the individuals, the 2,500 certified by the Automotive Assistance Board as eligible to apply for assistance, what were they doing? Were they assembling complete automobiles? Who were they working for, or were they working at a plant that had been bodily moved to Canada? Have you got any breakdown?

Mr. KATZ. Yes, sir, I think we have full information on those cases. I believe they are covered in the first and second annual reports of the President, but I would like Mr. Eaton of the Assistance Board to speak to this.

Senator CURTIS. To narrow my question down, give me the top two, three or four categories that make up those 2,500.

Mr. EATON. Mr. Senator, it has been in two categories those in the automotive assembly plants such as the General Motors final assembly plant or Ford or Chrysler or American Motors, and then some who

were in parts producing plants. Approximately half of the 2,500 workers were in assembly plants, and the other half were producing parts.

Senator CURTIS. Now, the half producing parts, how was that divided between in-house production of parts and the parts purchased from an unrelated company, more or less an arm's length transaction?

Mr. EATON. These were all outside companies, sir. I can give you the list of them very quickly. It is very short.

Senator CURTIS. All right.

Mr. EATON. The principal ones were the Maremont Corp. in Cleveland, Ohio, which was producing shock absorbers and had about 400 workers laid off. Rockwell-Standard Corp. in Adrian, Mich., basically wheel covers or fancy hub caps, had 300 workers laid off. Eaton Yale and Towne had about 600 workers laid off in two spring plants.

Senator CURTIS. What was the last one?

Mr. EATON. Spring plants making—

Senator CURTIS. Where was that plant located?

Mr. EATON. One was in Detroit and the other was in Lackawanna, N. Y., just outside of Buffalo, sir.

Senator CURTIS. Did the Canadians have a similar system of assistance?

Mr. EATON. Yes, sir.

Senator CURTIS. And how many people applied there?

Mr. EATON. Considerably more than in the United States, sir.

Mr. KATZ. It was 8,400, Mr. Chairman. On page 5 of my statement: 8,400 Canadian workers applied, and some 6,000 were certified eligible.

Senator CURTIS. What were those 6,000 doing? I don't want you to account for every one of them, but what are the leading categories?

Mr. KATZ. Just going down some of the major ones, and I will just cover the ones that were certified rather than those applying: the Ford Motor Co., Windsor, 1,470; General Motors, 2,058; and then the others seem to be primarily parts. Like Simcoe Industries, Beaverton, 233; McKinnon Industries Limited, Windsor, 247. There is another one for Ford, 254; McKinnon Industries, 766. Most of these, Senator, appear to be parts manufacturers.

Senator CURTIS. Now coming back to the United States case, were there employees of any company who applied for the assistance provision, and all of the employees of that company were turned down because of the finding that their slowdown or layoff was not directly connected with the agreement?

Mr. EATON. Sir, the Board has acted on 21 petitions filed by groups of workers. In seven of the cases the Board rejected the petition by finding that the operation of the agreement was not the factor causing the layoff.

Senator CURTIS. In seven cases?

Mr. EATON. Yes, sir.

Senator CURTIS. What sort of cases were they?

Mr. EATON. Each one was almost a specialized case, sir. May I read them?

One was a small case in Tennessee for the production of universal joints in a Borg-Warner plant.

Another one was a General Motors assembly operation in Wilmington, Del.

Another one was a Cleveland stamping plant of Eaton, Yale & Towne, a very small case.

Rockwell Standard, manufacturers of bumpers. Two cases for—
Senator CURTIS. Where was that?

Mr. EATON. Rockwell was in Mishawaka, Ind., sir.

There were two plate glass plants in Pennsylvania, and finally a small case for die-cast parts in Detroit, Mich. at the C. M. Hall Lamp Co.

In each of these cases the Board found that some factor other than the operation of the agreement was the primary factor in the layoff.

Senator CURTIS. Now, when sales didn't grow in Canada as anticipated, are you talking about the number of automobiles, the units, or are you talking about the dollars of sales?

Mr. KATZ. We are speaking of units, sir.

Senator CURTIS. The more added equipment, customers today like air conditioning and that sort of thing, creates a situation where it doesn't follow that profits to dealers and maybe even to manufacturers are not necessarily tied completely to the number of units, is that right?

Mr. KATZ. I would think in most cases it would be, sir.

Senator CURTIS. Well, it would have a relative relationship.

Mr. KATZ. Yes, sir.

Senator CURTIS. To units very definitely.

Mr. KATZ. Yes, sir.

Senator CURTIS. But my point is the number of units wouldn't be necessarily the total picture.

Mr. KATZ. No, sir. You could have a situation where the number of units sold declined but the dollar value of sales showed an increase. If the decline in units sold was fairly small, the added equipment might overcome that difference.

Senator CURTIS. That is all.

Senator ANDERSON. Senator Hartke.

Senator HARTKE. Let's come back to the trade balance between these two countries. There are two ways of doing the analysis, isn't that true?

Mr. KATZ. There are at least two, Senator.

Senator HARTKE. Now, you choose to use imports; is that what you are saying?

Mr. KATZ. What I am saying, sir, is that we think it is the best comparison that is available.

Senator HARTKE. Will you explain, just so we have it in the record, exactly what you mean by the import-import basis?

Mr. KATZ. Yes, sir. Because of the difficulty of knowing precisely what our exports are of U.S. products which go into Canada duty free, we use instead the Canadian import figures.

Now, both under our law and under the Canadian administration of the agreement, in order to get duty-free treatment an importer must represent the article as being an automotive product. It must be found to be an automotive product to be entered duty free.

An exported product, however, is shown in export statistics as an electrical product, or a textile product, or an article of wood: and it is not possible to know with any certainty what the precise amount of our automotive exports is.

We have found, in comparing Canadian and U.S. statistics, that both countries were undervaluing their exports. At least as they calculated the trade under the agreement, in both cases the automotive exports appear to be understated. So after some discussion with the Canadians, to be sure that we were using comparable products, we developed a series which uses as U.S. export data the other side of the coin, the Canadian imports, and similarly when Canada looks at it, they use for their exports our import data. In other words, in both cases you are using import data of the respective country.

Senator HARTKE. This import data that is exchanged between the two countries is different than the general overall practice which is used to determine the relative trade balances between countries, is it not?

Mr. KATZ. Yes, sir. You see, if you are looking at total trade, it really doesn't make any difference. I mean you know what your exports are. The difficulty that arises is trying to attribute the exports to the agreement. We can't precisely do that under our export series. We don't require information in our export declarations to be able to do that.

Senator HARTKE. In regard to the Canadian figures, are those f.o.b. or c.i.f.?

Mr. KATZ. I believe they are f.o.b. Yes, sir, they are f.o.b.

Senator HARTKE. What you are telling us is that you are using this specialized method for computation of the trade balance between the United States and Canada in order to make a determination as to what the real effect of the automotive agreement is.

Mr. KATZ. Yes, sir.

Senator HARTKE. Is that what you are saying?

Mr. KATZ. We are trying to arrive at the best appraisal that we can, and in fact in the annual report, the last annual report of the President, we presented three different tables. Perhaps that was a bit confusing, but we tried to show what our own statistics told us by taking traditional automotive exports, that is, not trying to determine what other products were attributable to the agreement, and we show that as one table. We showed another table which we called the special tabulation, in which we sought to estimate how much additional imports was accounted for by the agreement, and then we showed this import balance.

Senator HARTKE. Let's take your figures, then. On the import-import basis, what do they show has happened in relation to the trade between the two countries during the period that the agreement has been in effect with Canada? And give us the figures in dollars. Let me make very clear that what we are doing when we use import-import figures, we are using those figures which are most conducive toward showing the best results of the agreement, isn't that true? If we use the import-import figures, this shows the agreement in its most favorable light. Will you not agree to that?

Mr. KATZ. Yes, sir.

Senator HARTKE. In other words, we had to develop a whole new system or method in order to even make it appear that the situation was not as bad as it was before, isn't that true?

Mr. KATZ. No, sir. At least I don't accept that.

Senator HARTKE. You don't accept that. You accept the result without the conclusion?

Mr. KATZ. Yes, sir.

Senator HARTKE. In other words, that is a fair interpretation by me, whether you want to agree to it or not.

Mr. KATZ. Certainly, Senator, you are entitled to make your interpretation.

Senator HARTKE. Now, let's establish those figures very clearly. Let's do the import-import balance.

Mr. KATZ. Yes, sir. In 1964—

Senator HARTKE. What are you reading from?

Mr. KATZ. I am reading from page 20.

Senator HARTKE. Of the second annual report?

Mr. KATZ. Of the second annual report. That shows in 1964 U.S. net exports \$583.4 million. In 1965 this went to \$682.4 million, or a \$99 million increase in our surplus. In 1966, the net exports were \$526.8 million, or a decline from the previous year of over \$100 million. In 1967 there was a further decline to \$439.1 million.

Senator HARTKE. Mr. Chairman, at this time in the hearing I would like to make a request that before these hearings are concluded, that the Treasury Department be asked to appear as they did at the last hearings, too. They did not voluntarily appear at the last hearing but we requested that they come, and I would like to make that request and motion at this time, in view of the fact that some of the information which these hearings are based on is also based upon evidence and testimony submitted only from the Treasury rather than from other departments of the Government.

Senator ANDERSON. I think that would be all right. If it runs into problems and troubles will you check back with us later on?

Senator HARTKE. What I want to come back to is Mr. Trued's statement. He was the Assistant Secretary of the Treasury at that time.

(Discussion off the record.)

Senator ANDERSON. You wouldn't mind appearing again?

Mr. KATZ. No, sir, I wouldn't. I don't know that I can speak for the Treasury.

Senator HARTKE. This is the point I am getting at, Mr. Chairman. I do not think they can speak for the Treasury. In order to complete the record I think it is fair to ask that a Treasury representative be here. I do know Senator Gore wanted to be here at these hearings but there is a conflict between this hearing and the one involving the Supreme Court nominations. This presents another complicating factor.

Senator ANDERSON. The request will be made by the committee. Go ahead.

Senator HARTKE. When Mr. Trued testified here at the time the agreement was put into effect, didn't he tell us that there would be no reduction in the automotive trade surplus with Canada as a result of this agreement?

Mr. KATZ. Senator, I am not offhand aware of the precise statement that you are quoting from, but in my statement I did indicate that during 1965, when the legislation to implement the agreement was being considered, the administration witnesses estimated that we would maintain an export surplus of around a half billion dollars.

This was based on an assumption that growth of sales in the Canadian market would be at 8 percent. If sales in the Canadian market grew by more than 8 percent then our export surplus would grow. If the growth rate in Canada fell below 8 percent, then our surplus would decline.

Senator HARTKE. Isn't it true, though, that in this period the actual production of automobiles inside of Canada increased?

Mr. KATZ. Yes, sir.

Senator HARTKE. Even though sales decreased?

Mr. KATZ. Yes, sir, that is the very point. The significance of the growth in the Canadian market is that it is only if growth of sales in Canada is greater than growth of production that we can maintain and expand our surplus.

Senator HARTKE. Yes. Although there was a general decline in the total sales of automobiles in the North American market, there was an increase in production of units in Canada, and a decrease in production of units in the United States, is that true?

Mr. KATZ. Yes, sir, that is correct.

Senator HARTKE. And so when we go back to the main reason we went into this agreement—

Senator SMATHERS. Can I ask a question on that same point?

Senator HARTKE. Yes.

Senator SMATHERS. While it is true that the units they produced were more than they had been doing before, while we produced less than before, did our balance of trade, however, increase? In other words, did we send more parts or did more jobs result or less jobs in the United States as a result of this?

Mr. KATZ. Well, if you just look at the trade, Senator, the total trade grew.

Senator SMATHERS. I know but that is a little deceptive, the total trade, because it may have been all on their side, resulting from their advantage. The question is what happened to our jobs in terms of our relationship with Canada?

Mr. KATZ. Senator, as I pointed out in my statement, and as you can see from the chart, between 1964 and 1966, employment in the United States increased from 752,000 to 861,000. Now, I don't think it would be correct, sir, to say that this was because of the agreement. I think we have to look at this in perspective.

The Canadian industry is about a tenth of our own industry, and there are other economic forces at work here. But in fact in this period of the agreement, there was an increase from 1964 to 1966. In 1967 there was a decline in employment in the United States, and as I pointed out in my statement, this was due in part to the 2-month strike at the Ford Motor Co. and a decline in the automotive production in the United States because of the decline in the market in the United States.

Now, in Canada there has been a somewhat similar trend, although on a much smaller scale and again I wouldn't wholly attribute this to the agreement, although I would expect that in Canada the impact of the agreement was somewhat greater.

Whereas in the period from 1964 to 1966 we increased our work force in the automotive industry by 108,000, in Canada it grew by 15,000 in this period.

Senator SMATHERS. Is that a greater percentage growth than we had?

Mr. KATZ. Yes, sir, I am sure it is. In 1967 when our employment declined, it declined in Canada only slightly, by 1,000 jobs. In the first 5 months of this year, we recovered all of the loss of 1966, and have a higher rate of employment than in the same period last year.

Senator HARTKE. Going back again and the import-import criteria, there has been a drop, then, according to your own figures, of about 25 percent, is that true?

Mr. KATZ. I haven't done the arithmetic, sir, but there has been a drop.

Senator HARTKE. And this is contrary to the original representation made by the administration to this committee in September 1965?

Mr. KATZ. It is contrary to the estimate that we made, yes, sir.

Senator HARTKE. And it was estimated that——

Mr. KATZ. Or projection.

Senator HARTKE. That there would be no deterioration in the balance of trade under any circumstances.

Mr. KATZ. No, sir, not under any circumstances.

Senator HARTKE. That is what I understood.

Mr. KATZ. No, sir. We projected that our surplus would be maintained at \$500 to \$550 million, provided that the growth of sales in Canada grew by at least 8 percent.

Senator HARTKE. All right. So we may get a little of the background, if you use the traditional form of trade evaluation; that is the export-import criteria, there is even a much more serious problem presented to the United States in regard to balance of trade, is there not?

Mr. KATZ. I don't know that it is a more serious problem. The figures show lower surpluses throughout. It shows the same general trend. The trend is up in 1965 and down in the two subsequent years.

Senator HARTKE. Yes. And what is the balance of trade on that basis? Would you give us the figures for the years involved, and also for the first 3 months of this year?

Mr. KATZ. In table 14 on page 52 of the second annual report of the President, which is the traditional measure of automotive trade, it shows net exports in 1965 of \$685 million, \$467 million in 1966 and \$285 million in 1967.

Senator HARTKE. And in the first 3 months of this year it shows that we have gone into a deficit position for the first time; is that true?

Mr. KATZ. Yes, sir; that is what the figures show.

Now, as I explained, these figures——

Senator HARTKE. And how much is that deficit this year according to those figures? How much is it, \$40 million or \$20 million?

Mr. KATZ. I do not have the first 3 months, Senator. I have the first 4 months.

Senator HARTKE. That is all right. What are the figures for the first 4 months?

Mr. KATZ. The comparable table shows a surplus of \$3.6 million.

Senator HARTKE. In the first 4 months?

Mr. KATZ. Yes, sir, January to April.

Senator HARTKE. Can you give me those? I would like at this time, Mr. Chairman, to insert this table. This was prepared by the staff, was it not?

Senator ANDERSON. We will insert the table and label it what it should be.

Without objection.

(The table referred to follows:)

U.S. automotive trade with Canada, January-April 1968

[In millions of U.S. dollars]

U.S. exports:	
Passenger cars.....	266.1
Trucks, buses, and chassis.....	50.4
Parts and accessories.....	418.9
Total exports.....	735.4
U.S. imports:	
Passenger cars.....	373.3
Trucks, buses, and chassis.....	123.2
Parts and accessories.....	235.3
Total imports.....	731.8
U.S. net exports.....	3.6

NOTES

1. The above table is constructed on the same basis as table 14 (p. 52) of the Second Annual Report of the President to the Congress on the Operation of the Automotive Products Trade Act of 1965, May 17, 1968. Figures subject to revision.

2. The figures are not all-inclusive inasmuch as some automotive products as well as other items destined for automotive use are not separately delineated in U.S. trade classification systems and, therefore, are not separately available in U.S. foreign trade statistics. Exports and imports of tires and tubes are not included. Figures may not add to totals because of rounding.

3. Imports of \$23,000,000 of automotive products newly identified by the Automotive Products Trade Act of 1965 are not included in the above table since similar items are not identified as "automotive" in export statistics or statistics of automotive imports from other countries.

4. The net export balance shown for U.S. automotive trade with Canada in the above table is the most representative figure possible for the first 4 months of 1968 on the basis of U.S. trade statistics. However, on the basis of the import statistics of the two countries, as shown in the tables on p. 20 of the President's Second Annual Report, U.S. net exports for the period January through April 1968 were \$118,300,000 (using the official exchange rate of .925 U.S. \$ = C \$1.00).

Source: Prepared jointly by the Departments of State and Commerce.

Senator HARTKE. On this traditional basis, that is the export-import criteria, how many automobiles, passenger cars, were exported by the United States to Canada for the first 4 months of 1968?

Mr. KATZ. I am sorry, Senator, I do not have that.

Senator HARTKE. Trucks and parts?

Mr. KATZ. I have it on a dollar basis.

Senator HARTKE. Yes, on a dollar basis.

Mr. KATZ. On a dollar basis, U.S. exports of cars were \$266.1 million in the first 4 months.

Senator HARTKE. Trucks and chassis?

Mr. KATZ. Trucks were \$50.4 million, parts were \$418.9.

Senator HARTKE. And total?

Mr. KATZ. Total exports were \$735.4.

Senator HARTKE. Now the U.S. imports?

Mr. KATZ. Cars were \$373.3; trucks, \$123.2; parts, \$235.3; total imports, \$731.8; U.S. net exports \$3.6.

Senator HARTKE. All right.

Now then, the trade balance?

Mr. KATZ. Senator, if you like, I also have that on an import-export basis.

Senator HARTKE. I know that.

Mr. KATZ. Which shows net exports for the United States of \$116.3 million.

Senator HARTKE. The trade balance then, when we take U.S. imports with the figures you have given us on passenger cars, the favorable balance for the United States has decreased from what it was in 1964, 1965, and 1966, and went to this position in 1967 and 1968; is that not true?

Mr. KATZ. That is right.

Senator HARTKE. And in trucks, buses, and chassis, we went from a U.S. favorable balance in 1964 and 1965 to an unfavorable balance in the 2½ years since the agreement has been in effect; is that not true?

Mr. KATZ. Yes, sir.

Senator HARTKE. In the category of parts and accessories we have shown slight improvement from \$606 million in 1965 to \$672 million in 1967. But this has nowhere offset what we lost in passenger cars, trucks, buses, and chassis, has it?

Mr. KATZ. I am not sure which table you are reading from, Senator, table 14 indicates an increase from 315 to 427.

Senator HARTKE. On the basis of these figures which you have given us, the trade balance of the United States with Canada has steadily deteriorated since the agreement has gone into effect; is that not true?

Mr. KATZ. No, that is not true, sir. It increased very sharply in the first year. It increased \$99 million on the basis that we have shown. It has also increased on the other basis. That was due to a very large increase in growth in the Canadian market in that year.

Senator HARTKE. In 1964 there was a trade balance which was favorable to the United States of \$578 million.

Mr. KATZ. Yes.

Senator HARTKE. And that was the year before the agreement went into effect?

Mr. KATZ. That is right.

Senator HARTKE. And in 1965, this increased by \$99 million to \$658 million; is that not true?

Mr. KATZ. It increased. I think the figures are slightly different than the ones you have referred to, but they were up by \$99 million, using the export-import table. The surplus went up from \$583 million to \$682 million, or \$99 million.

Senator HARTKE. On the basis of the chart from which we were just reading, that is using the traditional export-import criteria, is it not true that there was a trade surplus in 1964 of \$578 million?

Mr. KATZ. Yes, sir.

You are using a somewhat different basis, but that is roughly the same as what I have.

Senator HARTKE. The \$658 million figure you referred to represents roughly an increase of \$99 million by 1965?

Mr. KATZ. Yes, sir.

Senator HARTKE. Then the trade surplus deteriorated and went down from \$658 million in 1965 to \$467 million in 1966?

Mr. KATZ. Yes, sir, or 527 on my basis.

Senator HARTKE. And in 1967 to \$285 million?

Mr. KATZ. Well to 439 on the import-import basis but it went down; yes, sir.

Senator HARTKE. I know what you want to do, Mr. Katz, but I am talking about the terminology used in the general field of balance of trade which we have talked about before. We have referred to the charts and now you do not want to stay with them.

I am not trying to get you confused. I am only trying to come back to the traditional method or criteria for determining the trade balance. Under this traditional basis there has been a sharp drop in the trade balance. I do not know why you do not want to agree this is so. I am using the Bureau of Census data contained in the President's "Annual Report on the Canadian Automobile Agreement" submitted to Congress on March 22, 1967, and May 21, 1968, respectively.

I am not going about creating these figures myself.

Mr. KATZ. I do not disagree with them, Senator. I just want to be clear which basis we are using.

Senator HARTKE. I understand.

Mr. KATZ. I will use either one, because I think your point is borne out by either basis.

Senator HARTKE. Yes. And the point is that in the first 4 months of 1968, for the very first time, the automotive trade balance between the United States and Canada has gone into a negative position. In other words we have an unfavorable balance of trade with Canada in the automotive classification utilizing the traditional method of accounting.

Mr. KATZ. Apparently for the 3-month period that you have but I do not have those figures before me. On the 3-month basis——

Senator HARTKE. I am sorry, 4 months.

Mr. KATZ. Four months it is not negative, sir. It is positive, a positive U.S. net export of \$3.6 million.

Senator HARTKE. All right. Let's check the figures.

On passenger cars I used the same figures you did. On passenger cars there was a deficit of \$107 million; is that not true?

Mr. KATZ. Yes, sir.

Senator HARTKE. That was a deficit which in 1963 and 1964 had been in a surplus position; is that not true?

Mr. KATZ. That is right.

Senator HARTKE. And there is also a deficit in the category of trucks, buses, and chassis for the first 4 months of 1968; is that not true? And that deficit is \$72 million; is that correct?

Mr. KATZ. Yes, sir.

Senator HARTKE. And in the category of parts and accessories there is a surplus of \$160 million; is that not true?

Mr. KATZ. Yes, sir.

Senator HARTKE. Now if you add \$107 and \$72 million, that is \$179 million.

Mr. KATZ. Yes, sir.

Senator HARTKE. And if you subtract the \$179 million deficit from the \$160 million surplus, then the net figure is a \$19 million deficit, is it not?

Mr. EATON. Excuse me, sir, it is about \$183 million surplus in parts.

Senator HARTKE. I thought we agreed the figure was \$160 million.

Mr. KATZ. I do not know where the \$160 million comes from, Senator.

On cars, U.S. exports are 266.1, the imports are 373.3, or a difference of—

Senator HARTKE. On U.S. exports, and let's do it this way, on parts and accessories there is \$418 million exports, right?

Mr. KATZ. Yes, sir.

Senator HARTKE. And on imports it is \$258 million, right?

Mr. KATZ. 245.2 for a difference of \$183.6 million.

Senator HARTKE. All I can say is that the figure was \$258.3 million in the information we received from Mr. Nordlie of the Commerce Department.

Mr. KATZ. Well, here again, Senator, this is equivalent to table 18 in the report, which is the so-called special tabulation, which includes in the imports all of the nontraditional automotive products.

Senator HARTKE. Let me stop you, Mr. Katz. Let's assume that your figures are correct and that the figures that I received from the Commerce Department are incorrect. The difference here is a difference of only approximately \$20 million; is that not correct?

Mr. KATZ. Yes, sir.

Senator HARTKE. And it would mean that instead of having the total trade balance in the first 4 months of 1968 in a deficit position, the trade balance would be approximately even, just across the board; is that what you are saying?

Mr. KATZ. Yes, sir.

Senator HARTKE. This much you will agree to then. We have come from a position in 1965, the first year of this agreement, from a trade surplus under these figures of \$658 million to nothing?

Mr. KATZ. For a 4-month period, yes.

Senator HARTKE. Yes, for a 4-month period.

Mr. KATZ. As a matter of fact, if you take the 4 months and analyze it, you find that there was a substantial deficit for the United States in the first month in January, for reasons I am not altogether clear, but perhaps having to do with labor negotiations and strikes and the aftereffects of strikes. In the months since then, February, March, and April, the deficit, if you like, has declined. So the trend is running the other way.

Senator HARTKE. But Mr. Katz, if the trend is running the other way, it has not only run that way for a couple of months, but for the last 8 years or since the agreement has been in effect, and it has been running the other way by a substantial amount. It has deteriorated from a position of \$650 million to practically zero.

Mr. KATZ. In the last 2 years that has been true; yes, sir.

Senator HARTKE. A sharp deterioration.

Mr. KATZ. Yes.

Senator HARTKE. In the balance of trade.

Mr. KATZ. A sharp increase the first year and deterioration, I do not know whether it is sharp, but certainly deterioration.

I entirely agree with you on the trend, Senator. I think it is clear. There is an increase in the first year. There have been declines in 1966, in 1967, and there is a decline this year in the first 4 months as compared with the same period last year—whatever basis you look at—

Senator HARTKE. What is the total balance of trade with Canada at the moment, do you know?

Senator ANDERSON. During what period?

Senator HARTKE. I meant last year and the first 4 months of this year.

In other words, my point is we have always had a favorable balance of trade with Canada; is that not true?

Mr. KATZ. Yes, sir.

Senator HARTKE. And it has been one of the offsetting factors for the trade deficits we have had with other countries; is that not true?

Mr. KATZ. Yes, sir; it has been a major——

Senator HARTKE. And it has been one of the saving graces in keeping our balance of payments from being in an even worse condition than it has been; isn't this true?

Mr. KATZ. We have had a large surplus on trade with Canada, yes, sir.

Senator HARTKE. This is not true of just our trade with Canada. It is a basic pattern in our trade with all nations. In the first few months of this year, for the first time I suppose since World War II, we have an overall unfavorable balance of trade in our trade with all nations; is that not true?

Mr. KATZ. Yes, sir.

We have had 2 months in which we have had a deficit in our balance of trade.

Senator HARTKE. Yes.

Mr. KATZ. I think there is another example in the fifties, but you are quite right, Senator. This has certainly changed.

Senator HARTKE. And now we have gone from a surplus in 1964 of roughly \$7 billion down to where our trade balance is in a deficit position; is that not true?

Mr. KATZ. No.

Well, just for 2 months, sir.

Senator HARTKE. I understand.

Mr. KATZ. I think for the year as a whole it is running at about a billion dollar surplus, which is far too low.

Senator HARTKE. And as a result of this continuing deterioration in our balance of payments it was necessary to pass a tax increase, according to that same argument; is that not true?

Mr. KATZ. Yes, sir; that is one of the factors.

Senator HARTKE. The Federal Reserve did a rather extensive analysis of the balance of payments in their April bulletin. In explaining the great number of imports the Federal Reserve had this to say, and I am going to quote:

Part of the reason for the extraordinary expansion in imports reflects a massive shift in the international structure of the automotive industry as a result of the United States-Canadian automotive agreement of 1965. Imports of autos and parts from Canada increased from almost nothing in 1964 to \$1.25 billion a year in 1966-67, and to a rate of more than \$2 billion early in 1968.

Can you explain to the committee what the Federal Reserve means by this "massive shift in the international structure of the automotive industry"?

Mr. KATZ. Well, I think it is clear from what they say. They are saying that imports from Canada in automotive products came up from almost nothing to \$2 billion. What they do not say, of course, is that our exports of automotive products have also undergone a major transformation. Our exports have increased tremendously in this pe-

riod, as have our imports, and in fact one of the purposes of the agreement was to increase the two-way trade in automotive products.

Senator HARTKE. Increase the two-way trade?

Mr. KATZ. Yes, sir.

Senator HARTKE. But this is an analysis of the balance-of-payments deficit by the Federal Reserve Board. What they have said is that part of the recent extraordinary expansion in imports—and they are not talking about just Canadian imports—was one of the bases that they, the Federal Reserve Board, used in order to convince the Congress to increase taxes; is that not true?

Mr. KATZ. Yes, sir; but if you will grant me, Senator, that the import-import series does have some validity, you may not prefer it over others, but it does show a \$135 million surplus last year.

Senator HARTKE. Yes, but Mr. Katz, all I am asking you is this: Congress has acted upon the recommendations of this administration based upon information submitted by the Federal Reserve Board to the effect that we had a remarkable and extraordinary expansion in imports which had to be curtailed; is that not true?

Mr. KATZ. No, sir. I do not believe that the tax increase was intended to curtail imports. I think it was intended to dampen inflation and hopefully make our exports more competitive than they have been in recent months, and I cannot really answer for all of the reasons, but I do not think that a major purpose of the tax increase was to limit imports.

Senator HARTKE. These were the arguments that were made by the administration in front of this committee and also the arguments which were made by the people who supported a tax increase on the floor of the Senate and in the House.

I think it is a recognized factor.

Mr. KATZ. I think it might have the effect of limiting imports to the extent that our own production is more competitive relative to foreign production. It might have that effect. And hopefully would also have the effect of making our exports more competitive, and contribute to our balance of trade and balance of payments in that way.

Senator HARTKE. Yes, but what I am saying to you is that the Federal Reserve Board made that representation. Now they make this statement.

I ask you to explain to me just what is this "massive shift in the international structure of the automotive industry" which they say was "a result of the U.S.-Canadian automotive agreement of 1965"?

"The massive shift of the international structure of the automotive industry," tell me what that was?

Mr. KATZ. Well, our trade has gone up from \$700 million to over \$3.5 billion last year, and a large part of that was imports. Canadian imports have come up from almost nothing to about \$2 billion.

Our own exports have gone up in this period, and there has been a transformation in the industry itself.

Senator HARTKE. The majority report of this committee in reporting the Automotive Products Trade Act of 1965, the enabling legislation for the Canadian Automotive Agreement, relied heavily upon the representations of then Secretary of Commerce Connor and Mr. Fried, the then Assistant Secretary of Treasury. I quote from page 13 of the report:

Under the agreement neither country is the loser. Both are winners. By the Treasury computation, both nations will share in the expanded trade in such proportions that our favorable balance of trade will not be disrupted.

Now, it has in effect been disrupted, has it not?

Mr. KATZ. No, sir; I do not think our trade has been disrupted. I think what we have is a result that was anticipated under the agreement; namely, a massive increase in two-way trade between the two countries.

Now, what you are referring to, Senator, is that over the past 2 years, and into the first 4 months of this year, there has been a decline in the surplus, but it was made clear repeatedly before this committee that the maintenance of our export surplus would depend on the rate of growth in Canada.

Now, we are looking at a very short span of years. We are looking at 3 years. What we apparently did was to catch the end of the up cycle and we hit the down cycle in the last 2 years, and I would anticipate that the growth in the Canadian market would be resumed.

I cannot say exactly whether it would be the remainder of this year. To some extent I suppose it would depend on the imagination of the designers in Detroit on whether the next model year is a boom year or not.

I think you are looking at a very short span of time, Senator. This agreement was not intended to produce results only over a 3-year period of time; it was intended as something that would go on for years and years and hopefully would be permanent.

Senator HARTKE. As a result of whatever factors you want to conclude have caused it, since this agreement has been in effect there has been a shift which has been more favorable to Canada in the trade balance than to the United States; is that correct?

Mr. KATZ. In the last 2 years the relative shift has been more favorable to Canada than it has been to the United States. I have said that repeatedly. This surplus has declined.

Senator HARTKE. And it has contributed to the balance-of-payments difficulties of the United States, has it not?

Mr. KATZ. It certainly has not helped, Senator.

Senator HARTKE. Quite the contrary, it has hurt us, has it not?

Mr. KATZ. I do not know that it has hurt us when you take into account all of the other factors, and I think there is a question of degree. I do not know whether this has hurt more or less than certain other factors which have harmed the balance of trade. But if what you are saying is that there has been a decline in our surplus, you are absolutely right, and that is true no matter which series—

Senator HARTKE. That is right.

Mr. KATZ (continuing). Statistical series you look at. Whether you look at the two series or actually there are three which are run by the Department of Commerce, or the import-import series, the trend has been the same.

The surplus was up in 1965, it was down in the two subsequent years.

The reason it was down, we believe, and I think this is irrefutable, is because of the decline in the growth of the Canadian market, whereas we had previously anticipated that the growth would continue to

be vigorous. I would expect that the growth would be resumed, and our surplus will grow.

Senator HARTKE. But the fact of it is, and as we, the dissenters to the report, pointed out at that time, unless there had been that continued growth, this agreement has not been in the best interests of the United States. In the long run the agreement has been beneficial to Canada at the expense of the U.S. balance of payments and balance of trade.

That has been the result. Whether you attribute it to the Canadian agreement or not, that has been the result.

Mr. KATZ. Senator, I would accept that as your conclusion. It would not be my conclusion. I would not agree that this has been to our disadvantage. I think in overall terms this agreement has been to our net advantage.

Senator HARTKE. Not dollars, though?

Mr. KATZ. Yes, dollars; dollars and jobs.

Senator HARTKE. You mean it would have been worse otherwise?

Mr. KATZ. Well, yes, sir; it might have been worse otherwise.

Senator HARTKE. How?

Mr. KATZ. Well, depending on how the industry was organized in the two countries.

In the absence of this agreement, I do not think you would have had the absolute growth in trade, and I do not think it is really possible to predict what the relative growth in trade might have been. But I think if you look at the figures before 1964 and you look at our vehicle exports, they were far lower than they are now.

I think the net figures that you are talking about is certainly relevant in balance of trade and balance of payments terms. But in terms of employment and economic activity, I think that the total trade, the total market, is highly relevant.

Senator HARTKE. Can you give a categorical answer to the question of whether or not letters of commitment by the automobile manufacturers to the Canadian Government will be renewed in any way, shape, or form?

Mr. KATZ. I can give a categorical answer with respect to the existence of any new commitments.

As I said in my statement, the letters that were exchanged in 1965 provided for certain increases through the current model year or the model year which is about to end. I have no information or reason to believe that any new letters have been signed or any undertakings have been given to the Canadian Government.

Senator HARTKE. According to a report by Mr. James Burke, who is consultant to the Automotive Service Industry Association, and I quote:

The Canadians will require vehicle manufacturers to make further Canadian value added commitments. Our government was not a party to this commitment in 1965 and apparently it only became aware of it shortly before the signing of the treaty.

Now if the Canadians should demand further commitments, would the United States be willing to serve notice that it was going to terminate the treaty?

Mr. KATZ. Is that your question, sir?

Senator HARTKE. I want to know what you are going to do about it?

Mr. KATZ. Well, the first thing we will do, as we are required to do under the law, is to report this fact to the Congress with recommendations.

I think it would depend on what the nature of that undertaking was and what the circumstances were. And I think it is clear to me from the legislative history that this was the intent of the Congress in adopting section 205 (b).

Senator HARTKE. That was that there was not to be a further extension?

Mr. KATZ. No, sir.

Well, I think there was certainly strong feeling on that point, but I think the intent of section 205 (b), as I recall it very vividly, was that if there were, the Congress certainly wished to know about it, and they wished to have recommendations from the President as to what should be done.

And then I assume the Congress would make up its own mind.

Senator HARTKE. But as far as you are concerned, you would not recommend that the treaty be terminated?

I would like to withhold that question for a moment and resume that questioning, as far as the record is concerned, in continuity and defer to the chairman, who wants to ask some further questions.

Senator ANDERSON. I have a very simple question.

We had dealt with General Motors a great deal in this discussion originally, and other manufacturers of the country. How much has General Motors invested in Canada to accommodate the requirements of the treaty?

Mr. KATZ. Mr. Chairman, I cannot give you that figure. I do not know.

Senator ANDERSON. Would you supply it for the record?

Mr. KATZ. I understand that they will be testifying here today, and I would respectfully suggest that that question be put directly to them.

Senator ANDERSON. We never know when we are going to be in session, but we may have the staff ask the same question.

Are these expenditures which General Motors would not have made if the trade pact had not been entered into?

Mr. KATZ. My impression, Senator, is that there have certainly been investments made as a result of the agreement. I can conceive of circumstances where, in the absence of the agreement, there might have been greater investments; because there might have been requirements on the industry in Canada to increase their production by an even greater extent than they have under the agreement.

Senator ANDERSON. This next question does not have to be answered by you at all.

What expenditures would result from termination of the pact at this time which would otherwise not occur?

Mr. KATZ. Again I do not think I could really estimate that.

Senator ANDERSON. What do you estimate the total cost of General Motors would be if the pact should be terminated next year?

Mr. KATZ. I think the cost to General Motors and to the automotive industry would be very substantial. I would think that the disruption that would be caused in the operations of the industry would be of major scope; but I could not answer it in terms of dollars.

This would depend on what the alternatives were after the agreement was concluded. I think it is one of the questions that we would want to look at very carefully, if we came to that point.

Senator ANDERSON. If you do reach that point, you will submit to this committee a suggestion about it?

Mr. KATZ. Yes, sir.

I think we would be certainly obligated to make recommendations to this committee and to the Congress.

Senator ANDERSON. We had many recommendations previously, when we had the hearings on the 1965 bill. I am just trying to find out if we may get further recommendations.

Mr. KATZ. I think one circumstance that was discussed in 1965 was to project what the Canadian regulations were at that time, and relate it to what other countries in the world had done.

Prior to the agreement the Canadians required that a certain percentage of an automobile be produced in Canada. It was most commonly 60 percent. If you look around the world, you see that the content requirements go up as high as 90 percent in some countries.

Now it would have been possible for Canada to go down this road. This would not have been an attractive alternative to Canada. It would have been very costly to it.

It would not have been in our interests to have Canada do that from the point of view of our trade, of the investments of our industry in Canada, and to our overall economic relationship with Canada.

Now it is a little hard for me at this point, Senator, to envisage precisely what would happen if the agreement ceased to exist.

Senator ANDERSON. Is General Motors testifying on this?

I will ask this of General Motors; but many of us worried about the treaty at that time and we still worry about it, as to what effects it will have upon American industry.

I appreciate the answers you have given thus far. Thank you very much.

Senator Hartke, go ahead.

Senator HARTKE. Mr. Katz, what I want to come back to again on this question that I asked you before about these letters of commitments, do you have an opinion, does the Department have an opinion as to whether or not these letters and statements, these letters or agreements should or should not be renewed?

Mr. KATZ. I see no reason for their renewal, sir. In my view they should not be renewed, and I have no evidence that they have been.

Senator HARTKE. And if you do receive notice that they are going to be renewed, would you then recommend that the treaty be terminated?

Mr. KATZ. I think that would depend on what was in the letter, and what the effect of it was likely to be. I do not think I could say at this point what precisely my recommendation would be, but we are obliged under the legislation to report the fact to the Congress and make recommendations thereon.

Senator HARTKE. It is true that before though, in 1965, the administration testified here that they did not even know what was in the letters; is that not true?

Mr. KATZ. Yes, sir.

Well, I think we knew in general what was in the letters. We had not actually seen the letters, and I do not wish to sound like I am

quibbling, Mr. Chairman, but I would point out that those were letters from Canadian firms to the Canadian Government.

Senator HARTKE. As I understand it, only a bona fide manufacturer can import U.S. automobiles and parts duty free; is that not correct?

Mr. KATZ. Yes, sir.

Senator HARTKE. A person cannot purchase an automobile duty-free in Canada, can he?

Mr. KATZ. No, sir.

Senator HARTKE. Or parts?

Mr. KATZ. That is right, sir.

Senator HARTKE. Pardon me?

Mr. KATZ. You are quite right.

Senator HARTKE. Will you tell me specifically what a bona fide manufacturer in Canada is?

Mr. KATZ. A bona fide manufacturer is defined in the agreement as a producer of motor vehicles who maintains not less than the level of Canadian value added that he produced in 1964, and secondly, that he maintain the same ratio of assembly to sales he had in 1964 and which is not less than 75 percent.

I do not have the actual words in mind, but in effect there are two criteria for defining a manufacturer.

One is that he maintain his production base, and secondly, that he maintain a ratio of assembly to sales that he had in the base period.

Senator HARTKE. Do we have a bona fide manufacturer in the United States, a person who is qualified to import Canadian cars?

Mr. KATZ. No, sir; not with respect to cars, but with respect to parts.

Senator HARTKE. To parts?

Mr. KATZ. Yes, sir.

Senator HARTKE. What is that?

Mr. KATZ. A bona fide manufacturer of vehicles in the United States entitled to import original equipment parts duty-free is basically a legitimate manufacturer and so signifies to the Secretary of Commerce.

Senator HARTKE. What about a situation where you have a dealer-supplier taking Canadian-made parts. He has an automobile supply store. Does he pay the tariff?

Mr. KATZ. Yes, sir.

Senator HARTKE. In other words, this gives specialized treatment then to people in certain fields; is that true?

Mr. KATZ. Yes, sir. It gives protection to producers of replacement parts in the United States who I think at this stage are not really interested in being a part of this arrangement.

Senator HARTKE. Pardon?

Mr. KATZ. This gives protection to the replacement parts industry in the United States.

Senator HARTKE. But it does not provide for any real lowering of costs as far as consumers are concerned?

Mr. KATZ. Yes, sir. It is protection of our domestic producers of replacement parts.

I should say it is not a great deal of protection. It is not as high as I am aware in some industries. It is currently 7½ percent for most parts and will be reduced by 50 percent to 4 percent.

Senator HARTKE. Let me ask you if a so-called parts manufacturer here is a bona fide parts manufacturer within the terms of the definition of the agreement, if he imports—

Mr. KATZ. I am sorry, sir, a vehicle manufacturer.

Senator HARTKE. Parts manufacturer?

Mr. KATZ. He is not required to be a bona fide manufacturer of parts.

Senator HARTKE. That is what I am trying to find out. In other words, I thought you said that there was a bona fide parts manufacturer in the United States under the agreement.

Mr. KATZ. No, sir. If I did, I misspoke. I meant—

Senator HARTKE. There is no such thing in the United States, is there?

Mr. KATZ. Nor in Canada either.

The only bona fide manufacturers are those who assemble vehicles, motor vehicles.

Senator HARTKE. But that does not apply to anybody who is in the parts business in Canada or in the sales business of automotive parts?

That provides a specialized treatment for a specialized group of people; is that not true?

Mr. KATZ. No, sir. I think that the intent of the agreement is to provide for duty-free imports of vehicles, those that are specified in the agreement, and original equipment parts. Now in fact only a vehicle manufacturer can import original parts. He is the only one that would want to, because he is the only one who assembles vehicles.

Senator HARTKE. Wait a minute now. I cannot agree to that.

Do you mean to say that only a vehicle manufacturer would want replacement parts?

Mr. KATZ. Well, not replacement parts.

Senator HARTKE. Or parts, original parts?

Mr. KATZ. Original parts.

Senator HARTKE. Original parts?

After all the ads you see in the newspapers and television? I know that my good friends from General Motors try to show in their ads that there is no difference between original and replacement equipment. I'm trying to recall the big ad that is always shown.

Mr. KATZ. Original equipment.

Senator HARTKE. I see that my friends from General Motors are present. I believe their ad says "Can you tell the original from the replacement part?" It is a good ad, a very effective ad.

Mr. KATZ. Yes, sir; I am sure it is a good product.

Senator HARTKE. Can you tell the difference between the original and the replacement part?

Mr. KATZ. Not if I look at the two parts side by side.

Senator HARTKE. The only thing you can tell is whether the one is going into the new automobile or whether it is going to a shop which is going to put it into a new automobile; is that not right?

Mr. KATZ. That is right; and this is what we are required to do under the law.

Senator HARTKE. I understand what it says. So when you talk about duty free, there are just really four people, four groups that can import duty free; is that right?

Mr. KATZ. Into the United States?

Senator HARTKE. In Canada.

Mr. KATZ. No, I think there are more than four. I would guess off-hand there are probably 30 or 40, including manufacturers of specialized vehicles, truck manufacturers and so forth in Canada.

On page 81 of the first annual report there is a list of the manufacturers, and it covers a page.

In the United States, as I recall, there are three and a half pages of firms.

Senator HARTKE. Is this true then? Only the manufacturers or the assemblers of these automobiles can use these parts and import them duty free; is that not true?

Mr. KATZ. Yes, sir.

Senator HARTKE. Now is this agreement free trade? Assume an independent manufacturer of parts in the United States wants to ship a replacement part to Canada. It has the full duty assigned to it, does it not?

Mr. KATZ. Yes, sir; because replacement parts are not covered by the agreement.

Senator HARTKE. Yes, I understand they are not covered. It is not a free trade agreement then upon automobiles. A part might be identical in all its functional uses. The only difference might be a difference in brand name. But if it doesn't go to a manufacturer—and a bona fide manufacturer, one who has made commitments to the Canadian Government—then there is a duty.

Mr. KATZ. If it is a replacement part, it is dutiable.

Senator HARTKE. It is what?

Mr. KATZ. It is subject to duty.

Senator HARTKE. It is subject to duty. So there can be no question that this is not a real free trade agreement in that respect?

Mr. KATZ. It does not include all automotive products.

Senator HARTKE. Now in relation to the adjustment assistance provisions of the agreement, no firm has asked for adjustment assistance in the United States, have they?

Mr. KATZ. No, sir.

Senator HARTKE. No firm?

Mr. EATON. No, sir.

Senator HARTKE. But people have?

Mr. EATON. Yes, sir.

Senator HARTKE. Individuals?

Mr. EATON. Twenty-one cases have been filed.

Senator HARTKE. Pardon?

Mr. EATON. Twenty-one cases have been filed by groups of workers.

Senator HARTKE. How can you account for the fact that individuals say that they have been displaced and firms say they have not been affected.

Mr. EATON. I do not attempt to account for that, sir.

Mr. KATZ. I would like to try.

Senator HARTKE. Go ahead.

Mr. KATZ. I would guess that firms have not been adversely affected, and in fact in connection with the review called for by the agreement, which I discussed in my statement, we have had consultations with all of the major elements of the industry. We talked to the vehicle manufacturers, the car manufacturers, truck manufacturers and parts manu-

facturers, and in general the impression we had was that all of the firms were in general satisfied with the operation of the agreement.

Senator HARTKE. I am the sole person here and I have to go to the floor of the Senate.

I understand from the committee staff that we have a witness with a short statement. We will permit him to read his statement. Senator Smathers will take charge of the hearing at this time. We are going to excuse you temporarily, Mr. Katz.

Senator SMATHERS. It is my understanding that at this time the procedure will be to have him read his original statement into the record. Immediately following your statement, Mr. Welch, I am going to submit a list of questions which were requested to be submitted by Senator Anderson, and I am going to ask you to include answers as a part of your statement to these questions on behalf of Senator Anderson and submit them in writing.*

STATEMENT OF HENRY W. WELCH, GENERAL ASSISTANT CONTROLLER OF GENERAL MOTORS, DETROIT, MICH.

Mr. WELCH. Thank you, Mr. Chairman.

My name is Henry W. Welch. I am general assistant comptroller of General Motors, Detroit, Mich. I have participated in the planning and implementation of some of the operations adjustments General Motors made in connection with the United States-Canadian automotive trade agreement. As a result, I am conversant with the background and workings of the agreement.

I would like to make a brief statement with respect to it and, as you requested, our experience under it.

PRIOR STATEMENT

On September 14, 1965, Mr. James M. Roche, our chairman, who was then president of General Motors, appeared before this committee, presented a statement and testified on the United States-Canadian trade agreement. As nothing has worked out any differently since then to cause us to change our position, I would like to submit copies of the statement made in 1965 which you may wish to review.

Senator HARTKE. Those statements, Mr. Welch, are in the record and are available to us. We will include those by reference in the record rather than reprinting them.†

Mr. WELCH. Thank you, sir.

As background, we noted that Canada was concerned with its deficit in automotive trade which had risen from \$133 million in 1949 to \$505 million in 1959. In 1959, this automotive trade deficit was 32.4 percent of Canada's entire trade deficit. Thus, Canada looked to the automobile industry while studying ways to improve its overall position.

While Canadian automotive consumption represented about 7 percent of the North American market, Canadian production measured by content accounted for only about 4 percent of North American output.

*The questions, and response appear at p. 86.

†Committee on Finance hearings, "United States-Canadian Automobile Agreement," Sept. 14, 15, 16, 20, and 21, 1965, pp. 191-198.

Subsequently, several steps were taken by Canada, including, in November 1963, the extension of the duty remission plan to cover all imported vehicles and most imported parts and accessories.

In May 1964, as the result of a protest by a U.S. parts manufacturer, meetings between representatives of the United States and Canadian Governments were held, which culminated in the United States-Canadian Trade Agreement. At the request of these two governments, General Motors representatives provided factual information and comments at that time but did not initiate any suggestions.

Mr. Roche's statement pointed out that General Motors had no part in evolving this agreement, but that we respected its provisions and would have to adjust our operations to comply with them.

Provisions in the agreement assured the U.S. industry of continued participation in the faster growing Canadian automotive market, which in 1963 and 1964 provided a surplus of automotive trade for the United States averaging nearly \$550 million annually.

As we pointed out in 1965, the agreement is less restrictive to the United States than other less desirable alternatives available to Canada to accomplish its objectives.

For example, the Canadian Government could have applied duty to parts from the United States which had previously been imported into Canada duty free. Duty rates on dutiable items could have been increased. The imposition of surcharges in addition to the prior statutory rate on imported vehicles is another avenue which the Canadian Government might have chosen to follow, and there was a precedent for this.

Beyond any of these, the Canadian content requirement of 60 percent could have been increased to, say, 90 percent. Such, and even more restrictive measures have been adopted in other countries under similar circumstances.

The application of any or all of these alternates could have been expected to greatly reduce or even eliminate U.S. automotive exports to Canada. Some of these steps have been taken either individually or in combination by other countries in recent years—for example, Argentina, Australia, Brazil—with the result that U.S. automotive exports to these countries have been substantially reduced or virtually eliminated.

In 1964, General Motors operations in Canada imported \$241 million in automotive parts and products from the United States, which contributed in the area of 17,000 jobs in the United States. We felt that the market growth in both the United States and Canada would make possible not only the then current levels of U.S. production for Canada, but would in a short period of time result in growth in the value of U.S. exports to Canada.

On the other hand, Canada, where the market growth has been at a higher rate—and is expected to continue at this higher rate—would participate to a somewhat greater extent in the growth. Thus, we felt the program would protect the favorable U.S. position with respect to the automotive balance of trade.

We also stated that it was our belief that the agreement, while not free of difficulties for the industry and the United States and Canadian Governments, would be a workable plan over a period of time, and we proceeded on the basis that there was an element of permanency in it.

EXPERIENCE UNDER AGREEMENT

One of the basic effects of the agreement was to encourage integration and realignment of production between the United States and Canada—by producing optimum volumes of components and vehicles in both countries in the hope that productivity of the automotive industry in both countries would be improved. Substantial additional expenditures were required by GM to effect this integration, and we now have substantial investments in this program.

Much has been done to integrate both Canadian and United States production. Thus, many of the low-volume items have been relocated to plants where the benefits of high volume can be obtained. This has gone on on both sides of the border, and is still in progress.

These changes were made possible, of course, by the provisions of the agreement. However, it must be recognized that the duty-free feature applies only after certain requirements are met. Failure to meet these provisions can result in very large penalties.

While the integration and realignment of our productive facilities in both countries has resulted in improved productivity, it is still too early to accomplish and measure the full benefits.

Most importantly, employment has increased in both countries, as expected in line with the growth in the market. With respect to employment dislocation in General Motors U.S. plants as a result of the agreement, fewer than 500 of our employees have been certified for Government assistance. Most of these employees were recalled and the remainder found other work very quickly.

From the standpoint of the U.S. balance of trade, our preliminary data for the 1967 calendar year show exports of U.S. automotive products by us and our suppliers from the United States to Canada exceeds imports from Canada by nearly \$240 million—approximately the same amount as in 1964.

On this basis, we estimate that there still are about 17,000 net jobs involved in this effort in the United States.

SUMMARY

General Motors has operated under the United States-Canadian Trade Agreement since 1965. Integration of production is continuing, and we have a large financial investment in the program. Our employment is higher in both countries.

Our net exports to Canada have been substantially maintained. We said 3 years ago that the United States-Canadian Automotive Trade Agreement was a workable plan. We still believe that it is, and that progress has been made since its inception in accomplishing the original objectives agreed to by both countries.

I have kept my statement brief. If the committee would like further details, I will try to answer questions.

Thank you.

Senator SMITHERS. Thank you, Mr. Welch.

I apologize for not being here to hear all of your statement, so I may ask a couple of questions which you have already answered in your statement.

Mr. WELCH. Fine.

Senator SMATHERS. But you can either repeat the statement on that point or just ad lib your answer.

There has been some inference, some statement made that this Canadian auto parts agreement has resulted in a loss of jobs to U.S. workers. Has that been true with respect to your company?

Mr. WELCH. Well, there have been four, I believe, applications for adjustment assistance from four of our plants. Three of them were certified as eligible for assistance, and they involved some 500 employees. These folks were only off a very short time.

I checked all the plants, and there are none on lay-off in any of those plants at the moment.

Senator SMATHERS. Is it correct to say that there are less jobs, that General Motors has less employment here in the United States by virtue of this agreement?

Mr. WELCH. No, sir.

Senator SMATHERS. Do you have figures in your statement which show that you have actually more jobs as a result of this agreement?

Mr. WELCH. No, sir; figures are not in the statement.

Comparing the second quarter of 1964 with the second quarter of 1968, our employment in the United States is up some 55,000 people. I used 1964 as the date when the agreement started.

Senator SMATHERS. 1964-68, an increase of 55,000 jobs, is that the regular percentage increase that you ordinarily expected without the Canadian auto agreement, or did that result from the Canadian auto agreement?

Mr. WELCH. No. I think inasmuch as in the two periods our net exports and imports to Canada were about the same, I would assume, I would conclude that the figures would not have changed appreciably had there been no agreement.

Senator SMATHERS. So your contention is that so far as the jobs at General Motors are concerned, they have not suffered, substantially, by virtue of this Canadian auto agreement?

Mr. WELCH. That is correct, except for these few temporary dislocations.

Senator SMATHERS. But overall, you believe that the job situation is as good as it ever was. Can you say that in your experience that Canadian auto parts agreement has in any way contributed to additional jobs in the United States?

Mr. WELCH. I am sure that it has in some departments. That would mean that some departments' employment would have gone up and other departments' employment would have gone down as we effected this rationalization back and forth. In total, I would think it would approximately balance out.

Senator SMATHERS. In other words, in total you do not see any great loss insofar as jobs are concerned, nor do you see any great increase as far as jobs are concerned? On balance, it would be just about what it would have been normally without the Canadian parts agreement?

Mr. WELCH. That is correct, for our company.

Senator SMATHERS. For your company?

Mr. WELCH. Yes, sir.

Senator SMATHERS. It has been alleged that there has been a great deal of capital exportation by your company in the fulfillment of this Canadian auto agreement.

In other words, that you took money from the United States and invested it in Canada in order to take advantage of the situation in Canada, resulting from the Canadian auto parts agreement. Is that a correct statement?

Mr. WELCH. No, sir.

Senator SMATHERS. What is the situation? What did you do?

Mr. WELCH. We have not sent any money into Canada for these expansion projects. We did borrow funds in Canada 2 years ago, partly for use in this. The balance of it has come from reinvested earnings, and of course depreciation.

Senator SMATHERS. Is it your general conclusion that after three and a half years of the Canadian auto parts agreement, it is a good thing insofar as your company is concerned, not only with respect to employment but with respect to finances?

Mr. WELCH. On balance, I would say yes, it is a workable agreement, and to the extent that it has resulted in improvement in productivity in both countries, in a beginning toward an improvement in productivity in both countries, I think it has been good in that sense.

Senator SMATHERS. What the members of the committee and I am sure the members of the Senate are concerned about is that we are so given to being so generous with our neighbors and our friends throughout the world that we enter into these agreements, and that these agreements invariably result in the great benefit of our neighbors and our friends, and to the great detriment of the United States with respect to jobs and imports vis-a-vis exports and finances.

Is that your opinion? What is your opinion on those points with respect to this agreement?

Mr. WELCH. I think the folks in the executive branch that worked with Canada in negotiating this agreement with Canada, this is just my opinion, had in mind protecting as much as they could and hopefully in full the favorable balance of automotive trade we have enjoyed with Canada for years.

The alternatives were for Canada to take——

Senator SMATHERS. You had better pull that microphone closer to you.

Mr. WELCH. The alternatives were for Canada to take one or more than one of the courses that they could have taken, like, for example, increasing their content on the parts in the car from 60 percent to perhaps 90 percent or even 95 percent as Australia has done. They could have imposed special surcharges on imported cars, as in fact had been done early in the fifties. They could have raised the duty rates.

There were a number of measures they could have taken, and that also I am sure was a factor.

Senator SMATHERS. So it is your judgment then, if I understand you correctly, that your company was fearful that because of the automobile trade imbalance of Canada with the United States, Canada could have adopted certain restrictive measures which in the long run would have hurt us, the United States and your company, substantially?

Mr. WELCH. Yes; I think that gave us all concern, especially the folks who were doing the negotiating.

Senator SMATHERS. I am more concerned about you.

Mr. WELCH. And we would have been concerned too as with any country.

Senator SMATHERS. Right, and is it your judgment that this Canadian auto parts agreement not only anticipated but forestalled the adoption of these restrictive measures on the part of the Canadian Government, and that in addition thereto, it continued the cooperation between the Canadians and the people of the United States, and it did so not to the detriment of either your company or the United States?

Mr. WELCH. I think I would agree with that, Senator.

Senator SMATHERS. There has not been—and I ask the question only for emphasis—there has not been any substantial or sizable exportation of money on the part of your company from the United States to Canada, in order to make the Canadian part of your operation work?

Mr. WELCH. No, sir.

Senator SMATHERS. I think that is all I want to ask.

(Off the record.)

Senator SMATHERS. Thank you very much for your testimony, Mr. Welch. If you will return at 2 o'clock you will be further questioned by Senator Gore. The committee would appreciate it.

Mr. WELCH. Thank you, Senator Smathers.

Senator SMATHERS. What I will do is to hear as many of these witnesses to get their statements out of the way. Mr. O'Keefe, of the Chrysler Corp., is scheduled to be next. Mr. O'Keefe, will you come forward?

STATEMENT OF BRIAN T. O'KEEFE, MANAGER, SPECIAL STUDIES AND DEFENSE ADMINISTRATION, CHRYSLER CORP.

Mr. O'KEEFE. Mr. Chairman, my name is Brian T. O'Keefe. I am currently manager, special studies and defense administration, Chrysler Corp., Highland Park, Mich. One of my duties is to represent Chrysler Corp. with respect to the United States-Canadian Automotive Products Agreement.

I appreciate this opportunity to appear before the Senate Finance Committee to express our views on the United States-Canadian Automotive Products Agreement.

In 1965, when your committee reviewed this agreement and endorsed the passage of Public Law 89-283 to be known as the Automotive Products Trade Act of 1965, Mr. David W. Kendall, then vice president, legal affairs, for Chrysler Corp., appeared before your committee. On September 14, 1965, Mr. Kendall stated, and I quote:

Chrysler Corporation strongly supports the historic Trade Agreement already reached by the United States and Canadian Governments, and we urge prompt passage of the implementing legislation.

The passage of almost 3 years has not changed our view of the fundamental wisdom of this agreement for the United States. If anything, it has strengthened our conviction that this agreement is the only course of action which can preserve for the United States a significant trade advantage in automotive products with Canada.

Statistics on trade are extremely difficult to pinpoint with accuracy, as has been acknowledged in reports to your committee by representa-

tives of the U.S. Government. The Government no longer has access through customs to the data for production parts of U.S. manufacture which are assembled in Canada into automobiles for sale in either country. Chrysler Corp.'s own data, for the model year just ending, show that there is contained in an average Canadian-assembled car shipped to the United States 65 percent of U.S.-produced material content and 35 percent Canadian-produced material content. Cars assembled in Canada for sale in Canada contain 52 percent U.S.-produced material content.

Obviously, the use of units-shipped data or dollar sales of completed vehicles only cannot accurately reflect this trade in production parts. Despite some misgivings about the absolute accuracy of the data, we believe that some pertinent observations of interest to your committee can be made from data contained in the "Second Annual Report of the President to the Congress on the Operation of the Automobile Trade Act of 1965" as published by your committee on May 21, 1968. We have prepared an analysis of data which indicated roughly \$35,000 per year of U.S. factory sales of automotive products per average employee.

(The analysis referred to follows:)

SCHEDULE A

	U.S. factory sales automotive products (billions)	Average employment in U.S. automotive products industry	Average sales per employee
1964.....	\$25.5	752,900	.....
1965.....	30.9	842,700	.....
1966.....	30.9	859,200	.....
1967.....	28.3	809,500	.....
Total.....	115.6	3,264,300	\$35,400

Source: U.S. Factory Sales, table 1, p. 34, 2d annual report; Average Employment, table 10, p. 43, 2d annual report.

Mr. O'KEEFE. The report states on page 3 that 1967 exports to Canada were \$1.8 billion. The average sales per employee developed in our schedule indicates that these exports were equivalent to the full-time employment of over 50,000 U.S. workers. On the same basis, the \$1.5 billion of imports from Canada shown on page 3 were equivalent to the full-time employment of over 40,000 Canadian workers.

This agreement, therefore, vitally affects the welfare of nearly 100,000 workers and their families.

While the data is not, in our opinion, accurate as to the balance of trade between the two countries, the 1964 U.S. net export surplus of \$583 million on this basis was equivalent to less than 17,000 U.S. jobs and the 1967 U.S. net surplus of \$439 million was equivalent to over 12,000 U.S. jobs. This data indicates a net loss of less than 5,000 jobs which is confirmed by the 5,684 U.S. workers who applied for assistance under the adjustment provision of the act through April 1968, of whom 2,500 have been certified as eligible.

Senator SMATHERS. Eligible for assistance?

Mr. O'KEEFE. Eligible for assistance; yes, sir.

We do not believe that there has been any such decline in surplus as the second annual report indicates. Chrysler Corp. cannot challenge

industry statistics as a whole, but it can point out the divergence of its own trade data with that which we understand was used as a basis for the second annual report. Valuations required by law for customs reporting are not identical to actual selling prices between Chrysler Corp. and Chrysler Canada.

To illustrate this:

(The valuations referred to follow:)

[In millions of dollars]

	<i>1967 calendar year</i>
Canadian produced automobiles:	
Total entered value, U.S. customs-----	334.7
Actual selling price-----	280.8
Difference -----	<u>53.9</u>
U.S. produced automobiles:	
Total entered value, Canada customs-----	214.4
Actual selling price-----	183.5
Difference -----	<u>30.9</u>

Mr. O'KEEFE. Thus on automobiles alone, customs data showed over \$53 million excess Canadian sales to the United States in 1967 and excess U.S. sales to Canada of only \$30 million. This produces a net apparent unfavorable balance of \$23 million which simply did not exist. (This data covers automobiles only because the same problem does not occur with respect to parts sales between Chrysler Corp. and Chrysler Canada, and time did not permit analysis of truck data which are, however, relatively minor as to trade.) It is our belief that similar disparity of data exists with respect to trade in all automotive products between the two countries.

More importantly for purposes of this review by your committee, the intercompany billing has changed significantly during the period 1964 through 1968. The changes included substantial increases in charges not reflected in customs, as well as changes in the intercompany billing of products. The attached schedule, and I think we should refer to the schedule that is attached to the back of the testimony, this is a schedule that we have prepared on Chrysler Corp. balance of trade between Canada and the United States for the 1964 through 1967 calendar years.

These data, I should point out, include some minor amounts of nonautomotive parts which time did not permit us to separate, and it does not indicate what portions of vendors' sales might have partial products of another country, which information is not available, of course.

In other words, when we say U.S. vendor sales to Chrysler Canada, we are not aware of the total original origin of some of the material that went into it. But this data indicates, the second annual report shows a decline for the industry from 1965 to 1967 in total of \$243 million (\$682 minus \$439) or almost 36 percent, which reflects the decline shown in our estimated customs data for Chrysler Corp., subtracting the \$34.6 million in 1967 from the \$93.6 million for 1965, of \$59.0 million or over 60 percent, which was unquestionably reflected in those customs figures. It is significant that Chrysler Corp. data show an actual favorable balance in 1965 of \$99.7 million, and in 1967

of \$35.1 million or an actual decline of only \$14.6 million, or less than 15 percent.

Clearly this Chrysler Corp. differential is a significant factor in a decline which appears to be overstated. Forecasting trends of the future on this basis would appear to be dangerous.

The United States and Canadian automotive industry, unlike many other industries, has grown to its present size by providing the public annually with new models. Attuned as it is to the demands of that public, the industry has developed more and more different car lines and body styles to provide the car buyer today with a greater number of choices.

Senator SMATHERS. We will recess at this point until 2 p.m.

AFTERNOON SESSION

Senator GORE. The committee will come to order. I am advised that Mr. O'Keefe was interrupted before conclusion of his statement. It will be the purpose of the committee to proceed with the completion of his statement, and with the statements of the other witnesses listed. Then perhaps there may be some interrogation with respect to witnesses who have already testified. Mr. O'Keefe, would you like to complete your statement?

STATEMENT OF BRIAN T. O'KEEFE, MANAGER, SPECIAL STUDIES AND DEFENSE ADMINISTRATION, CHRYSLER CORP.—Resumed

Mr. O'KEEFE. Mr. Chairman, I may repeat a little part of it because I am not quite sure where in the paragraph I left off.

The United States and Canadian automotive industry, unlike many other industries, has grown to its present size by providing the public annually with new models. Attuned as it is to the demands of that public, the industry has developed more and more different car lines and body styles to provide the car buyer today with a greater number of choices. One of the great economic risks begins each fall with the introduction of new models and the wait to find out which cars have caught the public fancy and, therefore, whether the manufacturer has reasonably predicted demand and planned correctly.

No one can accurately forecast market conditions in one country, so as to perfectly schedule production of each car line and body style. To expect that this can be done for the diverse tastes of two countries to exactly match the production facilities and trade flows to inflexible standards is unrealistic. There will be the inevitable ups and downs in given years, reflecting public demand and the production ability to meet that demand. These fluctuations have been and will be reflected in the automotive trade between Canada and the United States. Chrysler Corp. believes that this trade will remain significantly favorable to the United States over the years ahead, provided the industry can continue to operate under the Automotive Products Trade Act of 1965.

In the committee's legitimate concern, we believe that you should not lose sight of the fact that the equivalent of over 90,000 jobs are involved. Actually, the trade involved results from a portion of the labor of hundreds of thousands of workers. Not only the automobile

manufacturers but many of the original equipment parts manufacturers have invested in large capital expansion programs in both countries in reliance on the continuance of the agreement. Termination of the agreement would cause a disruption and dislocation of manufacturing activity affecting thousands of suppliers in both Canada and the United States and their workers.

Should the agreement be revoked, we have no assurance that the Government of Canada will not follow the example of other nations and require much higher Canadian content or complete manufacture in Canada. Totally apart from the agreement, the Canadian Government continues to persist in seeking higher Canadian content than the current requirements. Even if this results in higher automobile prices, they believe that the Canadian public would support such action to assure continued increase in Canadian automotive employment. To Canadians the subject of more extensive Canadian manufacture is not a theoretical concept, it is a matter of national pride. Any significant increase in required Canadian content can only result in new conditions of manufacture in both countries. Many workers, particularly older ones, would be unable to adjust to the skills required to meet these conditions. We urge this committee to prevent that possibility from ever becoming a reality.

Chrysler Corp. strongly supports retention of the Automotive Products Trade Act of 1965 as being in the best interest of the United States.

Thank you.

(The attachment referred to follows:)

CHRYSLER CORP. BALANCE OF TRADE, CANADA-UNITED STATES (CALENDAR YEARS) ¹

(In millions of U.S. dollars)

	1964	1965	1966	1967
Chrysler Corp. sales to Chrysler Canada.....	69.4	142.8	237.4	363.0
Other U.S. vendor's sales to Chrysler Canada.....	28.7	45.4	64.1	81.1
Charges from Chrysler Corp. to Chrysler Canada.....	3.7	4.8	12.5	28.0
Total.....	101.8	193.0	314.0	472.1
Chrysler Canada sales to Chrysler Corp.....	25.5	76.0	228.4	337.8
Chrysler Corp. purchases from other Canadian vendors.....	7.6	17.3	32.1	49.2
Total.....	33.1	93.3	260.5	387.0
Net actual U.S. favorable balance (excluding dividends).....	68.7	99.7	53.5	85.1
Adjustment for automobile customs value difference and charges not reflected by customs data.....	3.7	6.1	35.5	51.0
Estimated customs data.....	65.0	93.6	18.0	34.6

¹ Data do include minor amounts of nonautomotive products, which time did not permit to separate. The data also does not indicate what portion (if any) of a vendor's product might have originated in another country since this is not available to us.

Senator GORE. You remember the statement that what is good for General Motors is good for the United States. Would you submit the same statement with respect to Chrysler Corp.?

Mr. O'KEEFE. No, sir.

Senator GORE. Thank you. The next witness is Mr. Rodney W. Markley, Jr., vice president, Washington staff, Ford Motor Co.

**STATEMENT OF RODNEY W. MARKLEY, JR., VICE PRESIDENT,
WASHINGTON STAFF, FORD MOTOR CO.**

Mr. MARKLEY. Mr. Chairman, my name is Rodney W. Markley, Jr. I am vice president, Washington staff of Ford Motor Co.

Senator GORE. What do you mean Washington staff?

Mr. MARKLEY. Senator, my office is one of several staff offices of the Ford Motor Co. My responsibility is the Washington part of the Ford Motor Co.'s activities.

Senator GORE. What is the Washington part? Do you mean sales agency for Ford products?

Mr. MARKLEY. No, sir, I have nothing to do with the sales agency. My office is responsible for the company's relationships with the Federal Government in Washington, and involves matters before the regulatory agencies, international agencies, the executive departments, and the Government procurement agencies, as well as matters before the Congress.

Senator GORE. Are you a registered lobbyist?

Mr. MARKLEY. Yes, I am.

Senator GORE. Thank you.

Mr. MARKLEY. We are grateful for this opportunity to explain to this committee our attitude toward the United States-Canada Automotive Products Agreement in light of the past 3 years' experience. The members of this committee will recall, I am sure, that Mr. Fred G. Secrest, Ford's vice president-controller, testified in support of the agreement during your 1965 hearing. I am sorry that Mr. Secrest is out of the country, and cannot be here today, but I will try to pinch-hit for him and review the developments which have occurred under the agreement, compared with some of the key projections made by Mr. Secrest.

At the outset, let me assure the committee that in our view the agreement has worked well, and for reasons I will subsequently develop we strongly favor its continuation.

Senator GORE. Worked well for whom?

Mr. MARKLEY. It has worked well for the United States, for Canada.

Senator GORE. And Ford?

Mr. MARKLEY. And Ford, Ford employees, Ford shareholders.

Senator GORE. Proceed. What about the United States?

Mr. MARKLEY. I included that, I believe, in my previous answer.

A major purpose of the United States-Canada Automotive Products Agreement is the creation of a North American market for automotive products within which the full benefits of specialization and large-scale production can be achieved. Toward this end, duties on automotive products, except service parts, were eliminated by the United States and by Canada under conditions specified in the agreement. In line with the objectives of this agreement, Ford has converted its Canadian facilities from low-volume production of virtually its full range of product lines to high-volume production of a segment of its product lines.

When Mr. Secrest testified before you in 1965, he mentioned that Ford-Canada's single assembly plant produced 71 car models and 227

truck models. Today, in Canada we produce 49 car models and 64 truck models. Similarly we make only two engines in Canada, which are used both in Canada and the United States. The other 18 engines used in our Canadian and U.S. vehicles are manufactured in our U.S. plants. Further, Ford-Canada now produces some components such as axles used both in Canada and in many of our U.S. products, whereas other components such as steering gears used in Canadian vehicles and formerly manufactured in Canada are now being supplied solely from the United States.

As Mr. Secrest predicted, we have moved far down the road toward integration of our United States and Canadian manufacturing systems, with a high degree of interdependence and efficiency throughout. Furthermore, Canada has remained the major export market for Ford and other U.S. producers of automotive items. As you know, neither of these desirable results appeared likely in absence of the agreement.

With regard to the automotive balance of trade with Canada, Mr. Secrest testified that for model year 1964, the year prior to the agreement, Ford's favorable balance of trade with Canada would range from a low of \$106 million to a high of \$160 million, depending on the growth of the automotive market in Canada—the greater the rate of growth, the greater the favorable trade balance. Our current projection for the 1968 model year is a favorable trade balance for Ford of about \$155 million, just short of Mr. Secrest's highest projection. We would expect that our favorable trade balance will be as high in model year 1969.

Of course, the agreement has an impact not only on the automobile manufacturers, but also on independent parts suppliers. Fears were expressed that the manufacturers would shift their sourcing to Canada and that U.S. vendors would suffer accordingly. The facts indicate that independent parts suppliers for Ford, at least, have fared very well during the past 3 years. In 1964, Ford's U.S. purchases of original equipment parts from outside suppliers in the United States totaled \$1.8 billion. In 1968 we estimate that these purchases will increase to about \$2.3 billion—an increase of about 25 percent.

Looking at the situation of independent vendors in terms of United States-Canadian trade, we find that in 1964 the value of shipments of original equipment parts to Ford's Canadian plants from independent U.S. suppliers amounted to \$55 million. The 1968 value of such shipments will approximate \$171 million—an increase of \$116 million. On the other hand, independent Canadian suppliers of original equipment parts increased their shipments to Ford-United States from a 1964 total of \$13 million to a 1968 level of \$108 million—a \$95 million increase. In balance-of-trade terms, there was a net favorable trade balance enjoyed by U.S. independent vendors of \$42 million in 1964 and of \$63 million in 1968.

Mr. Secrest also forecast that on balance the agreement would not reduce domestic employment in the U.S. automotive industry. He noted, for example, that any U.S. job losses that might result from importation of Ford cars from a Canadian plant would be offset by additional jobs need to produce more of our domestic car lines for export to Canada. It was also noted that similar offsets would be expected in

other segments of our business and that automotive employment in both countries likely would increase.

This has proved to be the case. Overall, Ford's average monthly employment of hourly workers in the United States—excluding strike periods in 1964 and 1967—increased from 124,600 in 1964 to 145,300 in 1967 and to 158,300 for the first 5 months of 1968—an increase of some 27 percent.

In Canada, average monthly employment of hourly employees for the first 5 months of 1968 was 11,500, or about 1,500 above 1964—an increase of 15 percent. Accordingly, since 1964, Ford-United States has added about 20 jobs for every job added by Ford-Canada.

In considering this record of increasing U.S. employment, it is interesting to note that only about 2,500 U.S. workers have been certified eligible for adjustment assistance under provisions of the Automotive Products Trade Act of 1965. While I do not know how many of those 2,500 workers remain without employment, I would like to cite the only adjustment assistance case directly affecting Ford Motor Co. employees in the United States. In this instance, 150 employees were certified eligible. The bulk of these were actually reemployed by the company within a short period of time. Fifty-two refused job offers which we made to them.

Ford has made large capital expenditures in the United States and Canada during the past 3 years, with the lion's share in this country. From 1965 through 1968, Ford's capital expenditures approximated \$1.6 billion in the United States and \$201 million in Canada. Of course, not all of these expenditures were directly related to the agreement, particularly in the United States, but the company's intent in planning its operations during this period has been to integrate its United States and Canadian operations, in accordance with the objectives of the agreement. Incidentally, the Canadian expenditures were financed in Canada.

In absence of the agreement, the pattern of capital expenditures would certainly have been different, since the operating premise would not have been integration. Should the agreement be significantly modified or terminated, the effect on our manufacturing facilities would be most undesirable. Many of these facilities would automatically become uneconomic. Our cost of production in both countries would rise significantly—on a continuing basis in Canada and at least in the short run in the United States—and the impact on our customers, our suppliers, and our stockholders would be harsh.

Future investments in Canada will be based on market considerations common to both Canada and the United States. I can assure this committee that among the most important factors included in such investment decisions will be their impact on balance of payments and employment. One final comment about future investments. I want to make it clear to the committee that we at Ford are fundamentally opposed to the concept of any further letters of undertakings from the Canadian vehicle manufacturers to the Canadian Government.

In summary, during the last 3 years, in reliance upon the continuance of the United States-Canadian automotive products agreement and the implementing legislation and regulations in the United States and Canada, Ford has been establishing an integrated North Ameri-

can assembly and manufacturing system and has made heavy facility expenditures in order to implement this system. Canada has been maintained as the major export market for the United States. Ford's net balance of trade between the United States and Canada is projected to be favorable to the United States to the extent of \$155 million for the 1968 model year and to remain favorable in succeeding years. The level of employment in the automotive industry in the United States has increased, the efficiency of the North American automotive industry has also been increased, and the agreement has contributed to a more rapid growth of output.

If the United States-Canada automotive products agreement were terminated and the implementing legislation and orders repealed, the consequences to the automotive industry here and in Canada would be disastrous, both to the vehicle manufacturers and to the independent parts manufacturers. Ford would incur very substantial financial losses in the United States and Canada, as a result of its participation in a program sponsored and endorsed by both the United States and Canadian Governments, and which it had every reason to believe was to continue in existence on a long-term basis. Moreover, there would be a serious, and severe, distortion of production and sourcing patterns both in the United States and Canada, and unemployment frequently follows in the wake of such distortions.

Furthermore, we believe that termination of the agreement would put a severe strain on relations between the United States and Canada. While it is difficult to speculate on the exact nature of the actions that the Canadian Government might take, we believe the probability of some retaliatory action is high, considering the circumstances surrounding the development of the agreement in 1964 and 1965. If the Canadian Government were to impose quotas, tariffs, and local-content requirements such as now exist in other countries, the U.S. automotive trade balance vis-a-vis Canada would suffer substantially compared to the balance of trade levels that can be achieved under the terms of the existing agreement.

For these reasons, Ford Motor Co. strongly supports the United State-Canada automotive products agreement and would vigorously oppose its termination.

Thank you for providing us this opportunity to appear.

Senator GORE. Thank you. In compliance with the practice this morning, we will now hear the next witness, and then such time as the program in the Senate will permit will be utilized in questioning witnesses who have already made statements.

The next witness is Mr. William C. McCamant, Washington representative, Automotive Service Industry Association.

STATEMENT OF WILLIAM C. McCAMANT, WASHINGTON REPRESENTATIVE, AUTOMOTIVE SERVICE INDUSTRY ASSOCIATION

Mr. McCAMANT. Mr. Chairman, my name is William C. McCamant, I am appearing here today as the Washington representative of the Automotive Service Industry Association (ASIA).

Senator GORE. Are you a registered lobbyist?

Mr. McCAMANT. I am, sir.

The association is composed of over 5,000 automotive parts manufacturers, warehouse distributors, wholesalers, and rebuilders. Many

of the parts manufacturers manufacture parts for new vehicles under contract with the vehicle manufacturers, and also manufacture and sell direct to the automotive aftermarket for replacement purposes. Your courtesy in extending the opportunity to present views on the operations of the United States-Canadian automotive trade agreement is appreciated.

When this committee was considering the agreement, the association was represented by its president, Allen I. Levine, and its legal counsel, Harold T. Halfpenny, who expressed opposition to approval of the agreement. The operation of the agreement has exceeded our fears.

Basically the agreement, signed January 16, 1965, effects commitments made by the vehicle manufacturers on January 13 and 14 to the Canadian Government to place in Canada a larger share of the North American automotive market. Only vehicle manufacturers can import into Canada or into the United States automotive parts duty free. In the United States, a vehicle manufacturer can import both new vehicles and parts for new vehicles without any obligation to maintain American content or American production. In Canada, the vehicle manufacturers must meet certain obligations regarding Canadian content and assembly of vehicles in order to import U.S. made vehicles and automotive parts duty free into Canada. Hence, the agreement gives to the vehicle manufacturers an incentive to resource more parts in Canada. This was the purpose of the plan as outlined in the report of the Royal Commission commonly referred to as the Bladen report. Let us examine the statistics on trade between the United States and Canada in automotive products.

In reviewing the statistics available on United States-Canadian automotive trade, there are two sets of records. The first is derived from U.S. sources, and comes from the U.S. Bureau of the Census records on imports and exports. The second is derived from the U.S. records of its imports from Canada, and from Canadian Government records of its imports from the United States.

Mr. Chairman, I will request that these figures be included in the record.

Senator GORE. Will you please read them. I want these automobile company representatives who say this has been in the interest of the United States to hear this.

Mr. McCAMANT. Thank you.

The U.S. import-export records indicate the U.S. balance of trade in automotive products as follows:

[In millions of dollars]	
Year:	
1964	578.3
1965	658.1
1966	467.8
1967	285.2
1968 (January through April)	-10.4

Senator GORE. If you include the first 5 months the story is even worse.

Mr. McCAMANT. Is that true, Senator?

Senator GORE. Yes. It takes a real accomplished lobbyist to say this is in the interest of the United States.

Mr. McCAMANT. Now the second table.

If we use the United States and Canadian records of the imports of the respective countries, we find the following trend:

Year:	[In millions of dollars]
1964	583.4
1965	682.4
1966	526.8
1967	439.1
1968 (January through April)	113.6

If you use the U.S. import-export figures, the trade balance on automotive parts from 1964 to 1967 has declined 50 percent. If you use import figures, the trade balance declined 25 percent. I might add that what trade surplus we now have is in parts and accessories.

In the report dated September 27, 1965, of this committee, it was noted that:

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.

The record shows that the results are unique. What has actually happened was foreseen in the minority report, not only as to the shift to Canada of jobs and production, but also its effect on the balance of trade.

There are literally thousands of parts manufacturers, large, medium and small. Compared with the size of vehicle manufacturers, however, virtually all would be classed as small. With the pressure from the Canadian Government to increase the Canadian share of the North American market, the vehicle manufacturers have not only increased their own production facilities in Canada, but have shifted their purchasing of parts and equipment to the independent suppliers with plants in Canada, some American-owned, some Canadian-owned, and some companies with United States-Canadian ownership. Therefore, many U.S. companies responding to the pressures of the marketplace, meaning the customers, have expanded or established production facilities in Canada. Some of those facilities are still in construction, so the full impact of the letters of commitment still may not have peaked as yet. As your committee report stated, the agreement was unique.

The Automotive Service Industry Association does support free trade between the United States and Canada in automotive products.

Senator GORE. That is what the public was told that this agreement was?

Mr. McCAMANT. That is what they were told, Mr. Chairman.

Senator GORE. How did the American people and many Members of Congress get the impression that this agreement was free trade?

Mr. McCAMANT. I don't know, but it never was, and it still is not free trade.

Senator GORE. Who is it free for?

Mr. McCAMANT. It is free only for the major vehicle manufacturers. The only person who can ever win anything from a Canadian tariff is a vehicle manufacturer. Even if a vehicle parts manufacturer were to import originally equipment in Canada eventually destined for it, it has to be tied to a vehicle manufacturer, in order for the duties to

be remitted or excused, and the remission is credited to the vehicle manufacturer, provided that he has exported to the United States.

Senator GORE. Are you saying that the only beneficiaries in the United States from this agreement can be and can only be the four large automobile manufacturing concerns?

Mr. McCAMANT. I think that generally is a conclusion that can be drawn.

Senator GORE. Well, there are some smaller ones that might benefit.

Mr. McCAMANT. There are a number of smaller ones, and I am sure, I think the U.S. Government lists something like 128 designated vehicle manufacturers. In terms of market power, the effect of the other 124 is a very minor figure.

Senator GORE. At least as far as people in the United States are concerned, the beneficiaries are members of a rather limited, restricted and favored group, being manufacturers of automobiles?

Mr. McCAMANT. That is correct.

Senator GORE. Not many average citizens manufacture automobiles.

Mr. McCAMANT. That is true.

Senator GORE. And yet this agreement was sold to the American people, through very clever propaganda on the part of both the automobile concerns and the administration, as being one that would be beneficial to the United States, to the people of the United States.

In fact, as you have cited here, it was a deal intended to be primarily for the benefit of the automobile manufacturers as far as the United States is concerned, and isn't that the way it has worked out?

Mr. McCAMANT. That is true, and to the Canadian Government and the Canadian nation.

Senator GORE. Well, I was speaking only for the United States.

Mr. McCAMANT. Formerly we had the duties remission program, which was determined to be illegal. The parts manufacturers filed through the Federal courts. The United States started negotiating with the Canadian Government over the case as to what to do with the sick patient, and this is the solution that was finally evolved.

This committee was told that the parts manufacturers supported the agreement. If my ears served me correctly this morning, Senator, the spokesman from the State Department said it was his understanding that the parts manufacturers supported the agreement at the time it was under consideration.

Senator GORE. I didn't have that impression.

Mr. McCAMANT. And I looked in the record of this committee, and I find no parts manufacturer or association of parts manufacturers appearing before this committee in support.

Senator GORE. You know a strange thing happened during the course of that battle 3 years ago. I had many letters and telegrams and telephone calls from parts suppliers to the automobile concerns, but suddenly those people got very quiet, and upon followup they didn't want their names mentioned. Can you explain? Was that a mystery to you?

Mr. McCAMANT. Regretfully it is not a mystery to me. It is just not wise for them to come in and oppose publicly before this committee legislation which is supported by their largest customer.

That is the simple reason for it, and that is also the reason why there have been virtually no companies coming in asking for relief of

the Federal Government for assistance, because of the loss of contracts or the shifting of contracts from the United States to Canada.

Senator GORE. I won't press you on this because I suppose you represent some of these people.

Mr. McCAMANT. I believe I do, sir. That is the reason I am here today.

Senator GORE. I am even reluctant to mention some of my own constituents. They still want some business from Ford and General Motors and Chrysler.

Mr. McCAMANT. They do.

Senator GORE. And they are afraid if they speak their mind on this deal, they will not get it. They tell me so.

Mr. McCAMANT. That is a correct appraisal of the situation.

Senator GORE. Does that exist in States other than Tennessee?

Mr. McCAMANT. It is in a number of States.

Senator GORE. I have in mind one rather large concern, to which plant I made a visit. They showed me the parts they were supplying, indicated the number of employees who were employed manufacturing those parts.

They were very concerned about this proposed agreement, but suddenly I was no longer able to get any information. Indeed, the mail became real slow—the exchange of letters—and the specifics were deleted. You may proceed.

Mr. McCAMANT. Thank you. As I indicated, the Automotive Service Industry Association does support the trade between the United States and Canada. At a meeting of the ASIA executive and finance committee of December 7, 1967, the position adopted with respect to the United States-Canadian automotive trade agreement was:

(1) ASIA is opposed to the agreement as now constituted.

(2) ASIA is opposed to the private agreements entered into between individual vehicle manufacturers and the Canadian Government.

(3) If there is to be a continuation of any automotive trade pact, ASIA supports the elimination of all tariffs between the two countries, including those affecting automotive replacement parts.

Senator GORE. You mean affecting also new automobiles?

Mr. McCAMANT. Yes, including permitting the citizens of Canada to buy a new automobile in the United States duty free.

Under no circumstances can we view the current agreement as being "free trade." Indeed, we do not view the agreement as a "step" toward free trade, as some observers have characterized it. Only the vehicle manufacturers can be granted an exemption from duty on automotive products exported from the United States to Canada. Only vehicle manufacturers can import duty free from Canada, automotive parts. U.S. independent parts manufacturers cannot enter the Canadian market with its high tariffs on replacement parts. The so-called North American automotive market is not a reality to parts manufacturers. It is a reality to four vehicle manufacturers.

Over the past few months, the press has reported that the two Governments are reviewing the operation of the agreement. One reason for the review as stated in the agreement is to consider the extension of the duty-free status now enjoyed for new vehicles and parts for new vehicles to parts intended for replacement.

What is the incentive for Canada to extend the agreement to automotive parts for the aftermarket? Under the GATT agreement, the United States agreed to reduce its 8½-percent duty on automotive parts by more than 50 percent, and by January 1, 1972, the duty on parts for the aftermarket will be 4 percent. Canada has duties on replacement parts of either 25 percent or 17½ percent, depending on the category. Canada under GATT has agreed to reduce the 25-percent duty to 15 percent, and the 17½-percent duty to 12½ percent. Thus, the incentive for a really free trade agreement for Canada is difficult to see.

In other words, the Canadians have already gained the advantage on vehicles, the U.S. surplus in trade in parts is already faltering and may soon disappear, and as we move toward implementation of the GATT agreement, Canadian made parts by January 1, 1972, will have a 4-percent U.S. tariff hurdle, and U.S. made parts going to Canada will have either a 12½-percent or 15-percent tariff hurdle. Thus, the vast U.S. market will be almost wide open to Canadian producers, but the U.S. producers will still have to jump the 12½-percent or a 15-percent Canadian tariff on automotive parts.

The next question that comes to the fore is just what features of an agreement to extend duty-free trade to the replacement market would interest the Canadian Government? For this, I must refer to reports in the press. In an article in U.S.-Canadian automotive trade, the *Journal of Commerce* of May 17 reported:

Canada, it is understood, would like its subsidiaries of the big four U.S. auto producers to undertake new production commitments.

Also, in an article on the problem which appeared in the *Toronto Globe & Mail* of May 29, 1968, the observation was made that:

The effect may be to compound the difficulty of Canadian officials in securing at least tacit Administration consent during the current round of discussions to some new arrangement aimed at insuring that continued expansion of Canada's automotive production after the present undertakings by the auto manufacturers in Canada run out this year.

With United States and Canadian newspapers reporting that Canadian officials may be asking the U.S. Government to give tacit consent to further undertaking, you can well appreciate our alarm of what the negotiations will bring forth. It is entirely possible that the Canadian Government would agree to extending the duty-free status to parts destined for replacement provided that the vehicle manufacturers undertake new commitments to increase their purchase or manufacture in Canada of parts for the aftermarket. With such an atmosphere, it is difficult for the Automotive Service Industry Association to even ask that free trade in parts for the aftermarket be effected, because our meaning of "free trade" and the Government's meaning of "free trade" are not in the same ball park.

The automotive parts aftermarket is now open for deep Canadian penetration. An agreement to extend duty-free trade to replacement parts may be tied to further commitments to shift production for the aftermarket from the United States to Canadian factories, just as the present agreement shifted production for new vehicles and parts for new vehicles. Canada may require importers of parts for replacement to gradually or not so gradually increase their exports of re-

placement parts in order to import into Canada duty free. If there is the slightest possibility of this arrangement being realized, our association would oppose the extension as it would not be free trade.

There are many more aspects to consider, but inasmuch as we were not aware of the hearings until yesterday, this presentation must be limited. Again, we are grateful for the opportunity to express these views, and for the interest of the members of this committee in the independent automotive aftermarket.

Senator GORE. The committee thanks you for your testimony. I hope the administration representatives who are here will take note that your organization and your members did not and do not support the agreement, and would not support any extension of it or any further—I wouldn't say liberalization of it, there's nothing liberal about this. Instead of being a move toward liberalization of trade between the United States and Canada, this is a deal for the automobile manufacturers.

I would like to read the first paragraph of the minority report on this agreement and ask the State Department representative, Mr. Katz, to return to the witness table. The Chair would like to state that in case the bell rings in the Senate for a vote before questions are concluded, the Chair will submit questions in writing to all witnesses and expect an answer for the record. It may be that we can conclude testimony today.

Mr. KATZ. Yes, sir.

Senator GORE. Mr. Katz, I would like to read to you the first paragraph of the minority views with respect to the bill H.R. 9042 of September 27, 1965:

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 payments situation, and harmful to American industry and jobs.

I submit to you, sir, that the analysis of this agreement contained in this paragraph now stands as factual, which was a correct analysis, and the presentation given by the administration was wrong.

There is a vote. Is it agreeable to you, Mr. Katz, and to you, Messrs. Welch, O'Keefe, and Markley, due to the pressure of the business of the Senate in these, we hope, closing days, that the Chair submit written questions to which you will have the privilege of submitting written answers for the record?*

Mr. KATZ. Yes, sir; we will be pleased to do that.

Senator GORE. Thank you. I am so sorry that some of my Republican brethren aren't here, because I wanted to give Henry Ford back to them. He is too expensive for us. But they are not here, so maybe we will keep him until the next administration comes in.

With apologies for my inability to be here this morning, and for the pressure of the Senate business this afternoon, questions will be submitted to each of you in writing. The record will be completed and copies sent to you. Thank you very much.

Mr. KATZ. Thank you.

*The written questions and answers supplied appear as app. B, p. 79.

Senator GORE. We will include at this point in the record, the statement of Mr. Walter P. Reuther.

(Mr. Reuther's statement follows:)

STATEMENT BY WALTER P. REUTHER, PRESIDENT, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA, UAW

The United States-Canadian Automotive Trade Agreement has been of significant benefit to auto workers and employers on both sides of the border, to the economies of both countries, and to political relations between the U.S. and Canada. As President Lyndon B. Johnson's second annual report to the Congress on the operations of the Automotive Products Trade Act of 1965 stated:

"The agreement has stimulated a great expansion of automotive products trade between the two countries, promoted rationalization in production efficiencies, helped to narrow the differential between higher Canadian and lower U.S. prices, and strengthened the economic and commercial ties between the two friendly neighbors."

The reduction of trade barriers between the United States and Canada in regard to automotive products was economically sound. These two countries form a single North American automotive market. Consumption patterns in both countries are similar. The same four major automotive companies operate in both countries, and produce automobiles of North American design, which are bought by the great majority of automotive consumers in both countries. In such a situation, tariffs constitute artificial barriers against rationalized production and efficiency that hamper the economic well-being of workers, employers, and our two countries as a whole.

Evidence of the increased efficiency resulting from the agreement is the sharp increase in the trade in automotive products between the U.S. and Canada between 1964 and 1967, from \$730 million to \$3.3 billion. The companies found it economic to concentrate production of some vehicles and parts in one country and of other vehicles and parts in the other. There has also been a substantial increase in U.S.-Canadian trade in the products of allied industries, such as machinery and raw and semi-processed materials used in automotive production, although it is not possible to measure the amount of growth in this trade that has resulted directly from the agreement.

Since the agreement came into effect, there has been some decline in the net export surplus of the United States in automotive product trade with Canada, but not sufficient to cause concern in all the circumstances. In the first year the surplus actually increased substantially, from \$583 million in 1964 to \$682 million in 1965. It declined to \$527 million in 1966 and then to \$439 million in 1967. (These data are based on U.S. and Canadian import data respectively, because, as the President's Report to Congress pointed out, each country's export data are much less reliable than its import data. At the same time, we note the testimony of the spokesman for Chrysler Corporation, who pointed out that as far as his company was concerned, at least, there were some items not reflected in the data used for the Report which would have increased its U.S. surplus, especially in 1966 and 1967. If this is the general situation, then the U.S. actual surplus was substantially larger than that reported.)

The growth in the U.S. net export surplus in 1965 reflected the exceptionally rapid growth of the automotive market in North America in that year, according to the report, and the lower export surpluses in 1966 and 1967 resulted in part from a declining automotive market. The changes in the surplus from year-to-year should not detract our attention from the important fact that the surplus continues to be substantial in size and in favor of the United States.

In evaluating the current U.S.-Canadian trade agreement, consideration should be given to the fact that in any situation where freer trade is established between two countries, the negative or unfavorable effects resulting from the adjustments to a new economic climate are likely to occur in the first few years. On the other hand, the benefits resulting from freer trade will accumulate over the long run, as operations in both countries increase in efficiency and prices are lowered as a result.

In any case, it must be borne in mind that the question at issue is not whether, by abandoning the agreement, we shall revert to the *status quo ante*. We cannot return to the conditions of U.S.-Canadian automotive trade which existed prior

to 1965, because the Canadian government made it clear at that time that it could not permit them to continue. It must be remembered that the trade agreement was initiated because the Canadian government found the size of its trade deficit with the U.S. in automotive products to be intolerable, and had begun to take unilateral steps to reduce it. In particular, it had adopted measures designed to induce U.S. companies to shift part of their North American production to Canada. The choice facing the United States was whether to take retaliatory measures against Canada in return, or to work out a mutually satisfactory agreement with Canada to meet the problem.

The latter course was followed. If it had not been, if we had followed the course of retaliation, Canada would have countered with still further restrictions on automotive imports from the U.S. One U.S. negotiator of the auto trade pact, Robert L. McNeal, has said that if the pact had not been agreed upon, Canada would have raised tariffs and increased the percentage requirement for Canadian content in each motor vehicle assembled in Canada. The end result would probably have been a tariff war, a lowering of production in both countries, a reduction of available jobs, and greater layoffs in the automobile industry on both sides of the U.S.-Canadian border than actually occurred under the automotive trade pact in the last three years. If we were now to abandon the agreement, those same dangers would threaten us again.

Claims that have been made that 50,000 American workers have lost their jobs as a result of the U.S.-Canadian Automotive Trade Agreement are not borne out by the facts. From the inception of the Automotive Products Trade Act on October 21, 1965, through December 31, 1967, a total of eighteen petitions were filed before the U.S. Automotive Agreement Adjustment Assistance Board claiming that workers had been laid off as a result of the operation of the agreement. Of the eighteen petitions filed, the Board determined in thirteen of these cases that the workers were laid off as a result of the agreement. The Board determined in a little over two years that a total of 2,500 U.S. workers were laid off as a result of the agreement. This is equal to four-tenths of one percent of production worker employment in the industry in the U.S. in 1967. About 2,100 of these workers were individually declared to have been eligible for weekly adjustment assistance benefits under the trade agreement. Most of the workers who were laid off were either recalled to their former jobs, found new jobs, or left the labor force, so that on January 1, 1968, only 325 persons among those laid off as a result of the trade agreement were still unemployed.

These statistics on lost jobs do not take into account the new jobs created in this country as a result of expanded auto trade with Canada. There is no question that new jobs in the U.S. have been created as auto plants in this country are producing new items for the Canadian market, although the number cannot be precisely measured. The value of U.S. exports to Canada of completed passenger cars increased dramatically from \$41 million in 1964 to \$613 million in 1967. Exports of parts and accessories for use in motor vehicles assembled in Canada increased from \$597 million in 1964 to \$1¼ billion in 1967. Sales of trucks, buses, and chassis to Canada increased from \$21 million in 1964 to \$134 million in 1967. That makes a total increase of over \$1.3 billion in the value of motor vehicles and parts that have been produced in U.S. plants by American workers for sale in Canada. If some jobs have been lost because of increased imports from Canada, undoubtedly others have been gained because of increased exports to Canada.

Part of the U.S. benefit has been due to the expansion of the Canadian market that resulted from the trade agreement. The reduction of car prices in Canada to levels existing in the U.S., a goal made possible by the trade agreement and one for which the UAW has been striving since the agreement was signed, will provide an even greater stimulus for U.S. sales to an expanded Canadian market.

U.S. sales to Canada will represent a large share of Canada's market expansion, not only because there will be an increase in U.S.-made vehicle sales, but because U.S.-made parts and components constitute a large part of every vehicle made in Canada. A spokesman for one company has already told the Committee that Canadian-made cars shipped to the U.S. average 65 percent of U.S.-produced material content, and Canadian-made cars sold in Canada average 52 percent of U.S.-produced material content.

The creation of one auto market in North America should also result in increased efficiencies and lower costs for motor vehicles produced and sold in the United States, and therefore lower prices for consumers in this country as well, although the benefits in this regard will undoubtedly be much more substantial in Canada than on this side of the border.

As we have pointed out above, abandoning of the auto trade agreement would precipitate again the problems with Canada which existed prior to 1965, and attempts by Canada to find unilateral solutions could lead to serious dislocations of the production pattern in this country. But there is another serious danger if the agreement is abandoned. Under the agreement, new production patterns have been built up which are dependent on the ability of the producers to move vehicles and parts freely across the border in both directions. One industry spokesman estimated, in his testimony before the Committee, that production in the U.S. for Canadian consumption now represents the equivalent of over 50,000 full-time jobs, while Canadian production for the U.S. represents the equivalent of over 40,000 full-time jobs. If the agreement is abandoned, and the companies lose the right of free movement across the border, then regardless of what action Canada may take there would inevitably be a dislocation of production patterns as methods of sourcing and distribution which are economic under the agreement become uneconomic without it. This would affect U.S. products going into Canada as well as Canadian products coming into the U.S., and would almost certainly lead to unemployment of auto workers in both countries.

In order to avert these consequences for auto workers in the U.S. and in Canada, for the companies in the industry, and for the presently favorable U.S.-Canadian trade surplus in automotive products, we strongly urge the members of this committee to vote against any action which would abandon or weaken the U.S.-Canadian Automotive Trade Agreement. Instead, the Congress should act to strengthen and continue this landmark agreement, to broaden the areas of economic cooperation between the United States and Canada and in time to eliminate barriers to trade in other vital areas.

There is one other important problem concerning the Automotive Products Trade Act of 1965 which currently requires the action of Congress. Under the Act as it now stands, the right of adversely affected workers or employers to file a petition for adjustment assistance expired on June 30, 1968. It is essential that the Act be amended so as to continue this protection. Even though the number of workers affected has been remarkably small, and it is reasonable to anticipate that even fewer workers will be adversely affected in the future, nevertheless the principle should be maintained that those workers who are adversely affected will be given special assistance in adjusting to the change in their circumstances. The Act and the agreement which it implements have been adopted because it was in the national interest to do so. If the jobs and economic well-being of even a few individuals are destroyed because of an action by government which overall serves the national interest, then it is clearly the responsibility of the nation which enjoys the benefit to absorb also the cost of protecting those individuals.

Senator GORE. We stand adjourned.

(Whereupon, at 2:55 p.m., the hearing was adjourned.)

APPENDIX A

Committee on Finance Staff Analysis of the Second Annual Report of the President to the Congress on the Automobile Products Trade Act of 1965.....	63
Departments of Commerce and State Comments on the Staff Analysis.....	75

ANALYSIS OF SECOND ANNUAL REPORT OF THE PRESIDENT TO THE CONGRESS ON THE
AUTOMOBILE PRODUCTS TRADE ACT OF 1965 (U.S.-CANADIAN AUTOMOBILE
AGREEMENT)

BACKGROUND OF THE AGREEMENT

The U.S.-Canadian Automobile Agreement was born out of a plan by the Canadians to subsidize automobile engine and parts exports to the U.S. through a duty remission scheme. The scheme would have enabled a Canadian firm which increased its exports of engines and parts to get a remission of duties on \$1's worth of imports for each additional \$1 of exports over the base year 1963. Thus, a firm which increased its exports from \$10 million in 1963 to \$20 million in 1964 would be able to import \$10 million duty free.

This would have been an indirect subsidy to Canadian exports and thus be subject to our countervailing duty statute (Section 303 of the Tariff Act of 1930).

The U.S.-Canadian auto pact resulted from negotiation between the two Governments over disagreements arising out of the Canadian duty-remission plan.

Under the pact, the U.S. exports of vehicles and parts (except tires, and tubes, and replacement parts) to a "bona fide" Canadian manufacturer are admitted duty free, while the U.S. gives duty-free treatment to Canadian imports. It is not really a "free trade agreement" for several reasons. A "bona fide" Canadian importer is one who maintains the same Canadian value added and the same ratio of assembly to sales in Canada that he had in 1964. Thus, if a manufacturer assembled 90 percent of his car production in Canada in 1964 and this ratio dropped to 80 percent in 1965, he would not be able to import duty-free U.S. engines and parts. There were also "voluntary," "letters of undertakings" by U.S. auto firms to increase their investment and production in Canada.¹ These letters extend through 1968 models. It is probable that they will not be renewed, although the Canadian Government would like other forms of commitments from U.S. firms to increase their investment and production in Canada.²

EFFECT ON TRADE

The precise effect of the agreement on the U.S. trade balance in automobiles and parts is difficult to determine. This is because U.S. exports of certain semi-fabricated parts, which are covered under the agreement, are classified under non-automobile tariff definitions. However, under any basis of measurement the U.S. trade in automobiles and parts has suffered.

The April issue of the Federal Reserve Bulletin, in commenting on the effect of the auto agreement on the U.S. balance of trade, stated:

"Part of the recent extraordinary expansion in imports reflects a massive shift in the international structure of the automobile industry as a result of the U.S.-Canadian Automotive Agreement in 1965. Imports of autos and parts from Canada increased from almost nothing in 1964 to \$1.25 billion a year in 1966-67, and to a rate of more than \$2 billion early in 1968. (There was a rapid but only partly offsetting rise in automotive exports to Canada)."

Based on U.S. statistics provided in the Annual Reports of the President on this agreement, the trade picture is shown in Table I.

The U.S. has shifted from a net exporter to Canada of passenger cars, buses and chassis of \$22 million in 1964 and 1965 (average) to a net importer of \$139 million in 1966 and 1967 (average). In 1964, \$21.9 million or 29 percent of our automotive imports from Canada were passenger cars; in 1967, passenger car imports from Canada amounted to \$818 million, or 53 percent of total automotive imports from Canada. The large U.S. exports of parts (over \$1 billion in 1967), kept the U.S. in an overall surplus position, albeit a declining one. But, if the trends continue, the surplus will disappear in a few years.

Even on the basis of imports statistics of the two countries, which is the way the State Department feels best depicts the situation, the U.S. trade surplus fell from an average of \$633 million in 1964-65 to \$483 million in 1966-67. This approach to measuring the trade balance is shown in Table II.

Thus, one can conclude that the agreement has created a dramatic shift in U.S.-Canadian automotive trade, not to the U.S. advantage.

¹ These were published in the Committee hearings and are attached.

² The two governments are now completing a joint review of experiences under the agreement. A special report will be submitted to the Congress in accordance with Sec. 205 (a) and (c) of the Act. Perhaps at that time we can find out what, if any, further commitments will be made.

PRODUCTION

The increased investment and production in Canada by U.S. firms has resulted in longer production runs and increased specialization of production there. And, the gap between higher production costs in Canada and lower U.S. costs has narrowed.

U.S. production in 1964 was 9.8 million vehicles (including trucks and buses); it increased to 11.1 million in 1965, but has since declined to 10.4 million in 1966 and 9.0 million in 1967, mainly because of market conditions. Passenger car production in 1967 at 7.4 million is the lowest it has been in five years. (See Table III)

Motor vehicle production in Canada has increased steadily since the agreement entered into force, rising from 871,000 motor vehicles in 1964 to 847,000 in 1965, 902,000 in 1966, and 947,000 in 1967. (See Table IV)

It is difficult to tell how much U.S. production and employment may have been lost to Canada as a result of this agreement. The increased assembly of finished automobiles in Canada undoubtedly replaced some assembly operations in the U.S. Over 2,000 workers involved in assembling automobiles in the U.S. have applied for adjustment assistance, which is a clear indication that there has been some shifting.

EMPLOYMENT

Automobile employment in both Canada and the U.S. has gone up since the agreement.¹ Within the North American industry complex there have been shifts in plant locations in both directions. For example, one Chevy plant in New York was closed and the operation was shifted to Canada, while a Buick plant in Canada was closed and that operation was shifted to New York. Inasmuch as there generally has been more assembly in Canada of finished automobiles, some assembly jobs have been lost to Canada, but it is impossible to tell how much this may have been offset by more jobs in say, parts production, within the U.S. Table V gives data on employment in the U.S. and Canada. Later in the paper it will be seen that adjustment assistance has been provided to 2,500 workers in the U.S., which is an indication of the magnitude of displacement of U.S. jobs.

PRICES AND DIFFERENTIALS

The consumer price index for new passenger cars in the U.S. and Canada shows that both U.S. and Canadian prices fell between 1963 and 1966, but rose slightly in 1967.

CONSUMER PRICE INDEX, NEW PASSENGER CARS

(1957-59=100)

	United States	Canada
1963.....	101.5	99.7
1964.....	101.2	96.8
1965.....	99.0	96.1
1966.....	97.2	94.2
1967 (11 months).....	97.8	95.6

However, there has been a slight narrowing of the absolute price differential. Factory list prices of the same model car (4-door sedan) 6 cylinder with comparable standard equipment) were only 5.7 percent higher in Canada for the '68 model introduction, as compared with a differential of 0.6 percent for the '64 model. The higher Canadian sales tax (12 percent in '68 as compared with 7 percent in U.S.) made the suggested Canadian retail price for '68 models 9 percent higher than in the U.S.

ADJUSTMENT ASSISTANCE

Under Section 302 of the Automotive Products Act of 1965, firms or groups of workers were entitled to petition for help (adjustment assistance) if they felt they were being injured by the agreement. No firms have petitioned for assistance. Through April 1968, 5,684 workers have applied for assistance, 2,493 have been certified eligible and \$3.5 million has been paid out in adjustment assistance.

A list of the number of workers petitioning by firm, and adjustment assistance board action is provided in the attachment.

¹ There was a decline in U.S. employment from 1966 to 1967, but this was a result of slack domestic demand and the Ford Motor Company strike.

CONCLUSION

The U.S.-Canadian auto agreement has benefited mainly Canada and the large U.S.-Canadian automobile companies. While trade has increased both ways, Canadian exports to the U.S. have risen much faster than U.S. exports to Canada. If these trends continue, the traditional, favorable U.S. automotive trade balance with Canada will disappear.

The agreement has undoubtedly made Canada a more efficient producer of automobiles. Longer production runs and greater specialization have reduced the cost differentials between U.S. and Canadian plants.

A number of assembly operations have been shifted into Canada. Over 2,000 assembly workers in the U.S. have sought adjustment assistance; 540 have received such aid.

Certain U.S. suppliers have been injured. Out of 21 petitions for adjustment assistance by workers, 14 have been certified and 7 denied. A total of 2,493 workers have received such aid out of 5,684 petitioning, at a cost of \$8.5 million.

AUTOMOTIVE PRODUCTS TRADE ACT OF 1965
ADJUSTMENT ASSISTANCE CASE RECORD, WORKER PETITIONS. ONLY ¹

Petitioner's firm product, and union	Number of workers petitioning	Date filed	Board action		Number certified
			Determination	Date	
1. Ford: Pennsauken, N.J.; export packing. UAW Local 918.	150	Feb. 4, 1966	Certified.....	Apr. 14, 1966	150
2. General Motors: Grand Rapids; interior trim. UAW Local 1231	600	Apr. 14, 1966	.....do.....	July 28, 1966	375
3. Fram Corp.: Birmingham; air filters. Bridge, Structural and Ornamental Iron Workers Local 539	100	June 16, 1966	.....do.....	Aug. 25, 1966	100
4. Maremont Corp.: Cleveland; shock absorbers. No Union, 3 individuals.	400	Oct. 14, 1966	.....do.....	Dec. 23, 1966	400
5. Borg-Warner Corp.: Memphis; Universal Joints. UAW Local 237.	199	Dec. 19, 1966	Denied.....	Apr. 6, 1967	.....
6. Rockwell-Standard: Adrian, Mich.; wheel covers. Machinists Local 1268, Metal Polishers Local 69.	300	Jan. 10, 1967	Certified.....	Mar. 22, 1967	300
7. Eaton Spring: Detroit; leaf springs. UAW Local 368.	340	Feb. 2, 1967	.....do.....	Apr. 14, 1967	300
8. Eaton Spring: Lockawanna, N.Y.; leaf springs. Steelworkers.	170	Feb. 23, 1967	.....do.....	Apr. 28, 1967	170
9. AMC: Milwaukee; Auto bodies. UAW Local 75.	290	Feb. 28, 1967	.....do.....	June 15, 1967	100
10. AMC: Kenosha, Wis.; complete assembly. UAW Local 72.	230	.....do.....	.....do.....	.....do.....	215
11. Chrysler: Detroit; Dodge Polara assembly. UAW Local 7.	1,000	Mar. 3, 1967	.....do.....	June 16, 1967	265
12. General Motors: Wilmington; Chevrolet and Buick assembly. UAW Local 435.	740	Apr. 12, 1967	Denied.....	June 21, 1967	.....
13. Chevrolet: North Tarrytown, N.Y.; Chevrolet assembly. UAW Local 664.	325	Apr. 14, 1967	Certified revised certification. ²	June 23, 1967 Sept. 5, 1968	60
14. Fisher Body: North Tarrytown, N.Y.; automobile bodies. UAW Local 664.	400	Apr. 17, 1967	Certified revised certification. ²	June 23, 1967	45
15. Borg-Warner: Detroit, Mich.; Long Manufacturing; oil coolers. UAW Local 314.	26	June 7, 1967	.....do.....	Sept. 5, 1967	.....
16. Eaton Yale & Towne: Cleveland; stampings. UAW Local 307.	49 65	Aug. 2, 1967 June 21, 1967	Certified..... Denied.....	Nov. 13, 1967 Aug. 30, 1967	6
17. Rockwell-Standard: Mishawaka, Ind.; bumper division; UAW Local 586.	66	Aug. 23, 1967	.....do.....	Nov. 1, 1967	.....
18. Borg-Warner: Detroit; Long Manufacturing; condensers. UAW Local 314.	9	Nov. 1, 1967	Certified.....	Feb. 15, 1968	7
19. Pittsburgh Plate Glass Co.: Ford City, Pa., Works No. 4, Glass Workers No. 14.	150	Nov. 8, 1967	Denied.....	Jan. 18, 1968	.....
20. Pittsburgh Plate Glass: Creighton, Pa., Works No. 1, Glass Workers No. 12.	150	.....do.....	.....do.....	.....do.....	.....
21. C. M. Hall Lamp Co.: Detroit, Mich., die cast parts. UAW Local 304.	150	Jan. 18, 1968	.....do.....	May 3, 1968	.....
Total.....	5,684		14 certified; 7 denied.		2,493

¹ No petitions have been filed by firms.

² Certification revised to reflect corrected information.

³ Original petition withdrawn and investigation terminated July 31, 1967; revised petition submitted Aug. 2, 1967.

TABLE I.—U.S. AUTOMOTIVE TRADE WITH CANADA, 1964-67

[In millions of dollars]

Year	U.S. exports				U.S. imports				Trade balance ¹			
	Passenger cars	Trucks, buses, and chassis	Parts and accessories	Total	Passenger cars	Trucks, buses, and chassis	Parts and accessories	Total	Passenger cars	Trucks, buses, and chassis	Parts and accessories	Total
1964.....	45.4	17.7	591.1	654.1	21.9	4.7	49.3	75.9	+23.5	+13.0	+541.8	+578.3
1965.....	114.0	45.4	700.5	860.0	84.1	23.7	94.0	201.8	+29.9	+21.7	+606.5	+658.1
1966.....	275.6	83.6	952.1	1,311.4	370.7	158.3	315.2	844.1	-95.1	-74.1	+636.9	+457.8
1967.....	563.0	138.3	1,099.9	1,801.2	818.0	269.9	427.5	1,515.4	-255.0	-131.6	+672.4	+285.2

¹ U.S. favorable equals +.

Source: Bureau of Census data given in President's Annual Reports on Canadian Automobile Agreements, Mar. 22, 1967, and May 21, 1968.

TABLE II.—UNITED STATES-CANADIAN AUTOMOTIVE TRADE BASED ON UNITED STATES AND CANADIAN IMPORT DATA¹

(In millions of U.S. dollars)

Subject	1964	1965	1966	1967 ²
United States exports to Canada: ³				
Passenger cars.....	41.0	116.0	291.8	613.0
Trucks, buses, chassis.....	21.2	41.7	81.6	133.8
Parts and accessories.....	597.1	771.7	1,037.9	1,254.3
Total exports.....	659.3	929.4	1,415.9	2,001.1
United States imports from Canada:				
Passenger cars.....	21.9	84.1	370.7	818.0
Trucks, buses, chassis.....	4.7	23.7	158.3	269.9
Parts and accessories.....	49.3	139.2	360.2	474.1
Total imports.....	75.9	247.0	889.1	1,562.0
U.S. net exports.....	583.4	682.4	526.8	439.1

¹Tires and tubes not included. Figures may not add to totals due to rounding.

²Preliminary and subject to revision.

³As measured by Canadian Import statistics.

⁴Canadian Imports of parts and accessories in 1966 and 1967 adjusted to include coverage of products comparable to United States automotive parts imports from Canada.

Source: U.S. exports: BDSA (based on DBS data of Canadian imports from the United States, converted to U.S. dollars, exchange rate \$0.925). U.S. imports: BDSA (based on Bureau of the Census data).

TABLE III.—U.S. MOTOR VEHICLE PRODUCTION, CALENDAR YEARS 1963-67

(In thousands of units)

Calendar years:	Passenger cars	Trucks and buses	Total
1963.....	7,644.4	1,464.4	9,108.8
1964.....	7,745.5	1,562.4	9,307.9
1965.....	9,335.2	1,802.6	11,137.8
1966.....	8,604.7	1,791.6	10,396.3
1967 ¹	7,412.7	1,611.1	9,023.8

¹ Subject to revision.

Source: Automobile Manufacturers Association.

TABLE IV.—CANADIAN MOTOR VEHICLE PRODUCTION, CALENDAR YEARS 1963-67

(In thousands of units)

Calendar years:	Passenger cars	Trucks and buses	Total
1963.....	532.2	99.1	631.4
1964.....	559.6	111.4	671.0
1965.....	706.8	139.8	846.6
1966.....	701.5	200.6	902.1
1967 ¹	720.8	226.4	947.2

¹ Preliminary.

Source: Dominion Bureau of Statistics.

TABLE V.—EMPLOYMENT IN THE AUTOMOTIVE PRODUCTS INDUSTRY, UNITED STATES AND CANADA, 1963-6

UNITED STATES					
(In thousands)					
Annual average	Total motor vehicles and equipment	Motor vehicles	Passenger car bodies	Trucks and bus bodies	Parts and accessories
1963.....	741.3	299.9	60.6	32.4	328.9
1964.....	752.9	306.1	55.7	32.0	336.7
1965.....	842.7	352.9	66.4	34.5	362.8
1966.....	859.2	361.5	65.3	36.8	368.4
1967.....	809.5	341.4	60.3	36.7	347.5

CANADA			
	Motor vehicles	Assembling	Parts and accessories
1963.....	60.3	29.9	26.1
1964.....	69.3	34.3	30.5
1965.....	80.0	40.3	34.6
1966.....	84.9	40.4	38.8
1967.....	83.8	40.4	37.1

LETTERS OF UNDERTAKING

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

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

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

of vehicles sold in Canada during the ensuing model year and the cost of vehicles sold in Canada during the base model year net of Federal sales tax in both cases); and (4) undertake, in addition to meeting the above three conditions, to achieve a stipulated increase in the annual Canadian value added by the end of the model year 1968.

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

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

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

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

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

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

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

We have carefully reviewed our situation in the light of your proposals and requests and have asked that our affiliates do the same. We can see areas where we can and will achieve a significant portion of your suggested objective of \$121 million increase in Canadian value added by 1968. This is possible because Gen-

eral Motors of Canada and our affiliated Canadian companies have recently engaged in the Canadian manufacture of certain automotive components heretofore imported. These include the fabrication and assembly of automatic transmissions at McKinnon Industries Windsor plant not only for Canadian requirements but for export to assembly plants in other countries as well. In addition, in the 1964 model year the oversea market for North American-type passenger cars and commercial vehicles has been increasingly served by our plants in Canada. Of course, any slowing down in the rate of growth in the industry or any adverse developments in the economies of Canada, the United States, or other principal markets, or failure to achieve duty-free entry into the United States would make this achievement more difficult.

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

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

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

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

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

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

Sincerely,

E. H. WALKER.

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

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

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

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

Our undertakings are, of course, conditional upon the execution of that agreement, upon the adoption of an order in council, and regulations substantially in

the form of the drafts that you have already delivered to us, and upon an acceptable response in respect of the enclosed supplementary letter.

Yours sincerely,

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

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

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

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

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

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

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

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

We understand that—

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

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

(iii) for the purpose of computing the ratios referred to in paragraph 2(1)(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 his 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) (1) 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 60 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 amendments for the purpose of this section, and for the conditions stipulated in the Motor Vehicles Tariff Order 1965.

We believe that the definition of growth is unfair because it includes as growth the difference between the cost of vehicles produced in Canada and the cost to us of identical imported vehicles. In the event that we rationalize our vehicle production in Canada so as to concentrate our production in Canada on high volume models for the North American market with other models being imported, the difference in cost as defined above would result in a substantial growth even though there was no change in the number and models of vehicles sold in Canada. We request your careful consideration of a change in the definition that would eliminate this inequity. This inequity is compounded by the fact that Ford Motor Co. of Canada, Ltd., is compelled by the Canadian antidumping law to import vehicles at dealer price, and we request that your Government also give careful consideration to a change in the antidumping law in respect of vehicles imported under the Motor Vehicles Tariff Order 1965.

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

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

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

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

Yours sincerely,

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

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

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

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

As a result of this plan, the contribution of engines to our Canadian value added in the production of motor vehicles in Canada in the 1966 model year and subsequent years, will be substantially reduced below the amount contributed by engines in the 1964 model year. The total Canadian value added of our engine operations for domestic use and for export will, however, be increased substantially over our actual value added of engine production in the 1964 model year. For the purpose of the definition of a motor vehicle manufacturer, however, our value added in Canada in the production of motor vehicles in Canada in the base year may experience a short fall of approximately \$22 million. Regardless of this possibility, our total Canadian value added will be maintained at the level of our basic undertaking set forth in paragraph 2 of our letter of January 14, 1965.

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

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

Yours sincerely,

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

CHRYSLER CANADA, LTD.,
January 15, 1965.

Hon. C. M. DEUBY,
Minister of Industry,
Ottawa, Canada.

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

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

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

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

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

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

facturers 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 60 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,

JANUARY 14, 1965.

HON. O. M. DRUBY,
*Minister of Industry,
Parliament Building,
Ottawa, Canada.*

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

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

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

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

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

Our company also notes that the right to import motor vehicles and original equipment parts into Canada under the agreement is available to vehicle manufacturers in Canada who meet the conditions stipulated in the Motor Vehicles

Tariff Order 1965. These conditions are, in brief, that vehicle manufacturers shall maintain in each model year their domestic production of motor vehicles in the same ratio to sales of motor vehicles and the same dollar value of Canadian value added in the production of motor vehicles in Canada, as in the period August 1, 1963, to July 31, 1964.

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

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

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

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

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

Yours sincerely,

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

COMMENTS BY THE DEPARTMENTS OF STATE AND COMMERCE ON THE ANALYSIS OF THE SECOND ANNUAL REPORT OF THE PRESIDENT TO THE CONGRESS ON THE OPERATION OF THE AUTOMOTIVE PRODUCTS TRADE ACT OF 1965

BACKGROUND OF THE UNITED STATES-CANADA AUTOMOTIVE PRODUCTS AGREEMENT

The United States-Canada Automotive Agreement of 1965 arose out of a dispute over unilateral Canadian actions to stimulate the growth of the Canadian automotive industry by measures the United States considered unfair and prejudicial to our interests. The Agreement represented a positive solution designed to create a broad market for automotive products and to develop conditions in which market forces could operate.

Prior to the Agreement the U.S. and Canadian automotive industries were in many respects similar. Models produced in Canada were made by U.S. subsidiaries using parts largely interchangeable with those used in U.S.-made cars. Despite many common elements, artificial and uneconomic barriers divided what was essentially a single industry.

Faced with increasingly higher costs of production, a small market and steadily mounting imports, Canada in 1962 adopted a plan to remit import duties in return for expanded exports. Some U.S. automotive parts manufacturers complained that the remission of duties was tantamount to a subsidy and petitioned the Treasury Department for countervailing duties on imports from Canada. An investigation was begun but some questions existed as to the legality of imposing countervailing duties. Considerable uncertainty existed for industries in

both countries. There was also the possibility of further Canadian measures which would have also had adverse trade effects for the United States. As President Johnson said in his letter dated March 31, 1965 to the President of the Senate and the Speaker of the House of Representatives. "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 serious strain."

After some nine months of discussion and negotiation, the United States and Canada agreed to adopt an alternative—an arrangement to remove the barriers between the two industries and permit the creation of a single North American industry. The Agreement was signed on January 16, 1965 by President Johnson and Prime Minister Pearson.

Under the Agreement the U.S. removed its import duties on Canadian cars, trucks, and buses, and parts for assembly. Canada did the same (its duties ranged from 12½-25%) except that, in recognition that costs and prices of cars in Canada would remain higher for some time, only manufacturers meeting certain criteria could import duty free into Canada. These criteria were included in the Agreement as special transitional measures until the smaller and higher-cost Canadian automotive industry could adjust operations to the much larger North American market.

Additionally, apart from and wholly outside the Agreement, Canada obtained letters of undertaking by Canadian vehicle manufacturers (reproduced in the appendix to the analysis).

RESULTS OF THE AGREEMENT

In response to the opportunities afforded by the Agreement, manufacturers moved quickly to rationalize production between the two countries. As a result some car models are no longer produced in Canada but are imported from the U.S. On the other hand, Canadian plants are specializing in fewer models with longer and more efficient production runs. Most producers have now largely completed their major production adjustments.

TRADE EFFECTS OF THE AGREEMENT

Under the agreement, automotive trade between the U.S. and Canada has quadrupled, rising from \$730 million in 1964 to over \$3.3 billion in 1967. In addition, trade in allied products, such as machinery, tires and tubes, paint, and chemicals has increased significantly although the relationship of that trade growth to the Auto Agreement is not measurable. Canada continues to be the largest export market for products of the U.S. automotive industry. Total U.S. automotive exports in 1964 were \$1,705 million and the Canadian market accounted for 37 percent of this total, or \$654 million. In 1967 exports to Canada amounted to \$1.8 billion and constituted 61 percent of total U.S. automotive exports.

As noted in the analysis and the President's Annual Report, serious statistical problems arise in measuring United States-Canadian automotive trade. Imports into both countries of duty-free vehicles and original equipment automotive parts are precisely identified but the export statistics are less detailed and do not identify as "automotive" substantial exports of parts, which are subject to duty-free entry into the other country as a result of the Agreement. Because of such problems, there is an increasing divergence between U.S. and Canadian trade figures with U.S. data showing lower U.S. net automotive exports than are shown by Canadian data.

As a result both the United States and Canadian Governments agree that the most representative and comprehensive measure of total automotive trade between U.S. and Canada may be derived from their respective import statistics.

The net export surplus of \$439 million in 1967 was below the \$500 million level projected by Administration witnesses during the 1965 hearings before the Senate Finance Committee. However, the average U.S. trade surplus during the three years under the Agreement (1965-67) was \$549.4 million compared with an average of \$551.5 in the two years prior to the Agreement.¹

The \$500 million net surplus projected by the Administration in 1965 assumed an annual growth rate of the Canadian market of 8 percent (as compared with

¹These figures are based on U.S. and Canadian import statistics—see page 20 of the Second Annual Report (1963 figures estimated).

the 10.6-12.0 percent annual Canadian growth in the period 1960-64). The 1966 and 1967 decline in the U.S. export surplus was due in large part to a less than 8 percent annual sales growth in both countries while record sales in 1964 and 1965 contributed to high trade surpluses those years. Thus, as expected, automotive trade balances moved in the same direction as sales and production figures.

It is very difficult to project meaningful trade trends on the basis of only three years experience under the Agreement. The declines in the U.S. automotive trade balance in 1966 and 1967 appear to be of a temporary nature resulting from lower than projected sales growth in Canada and the initial adjustments arising from the rationalization and integration of U.S. and Canadian production.

PRICES

The difference between prices in the United States and Canada for the same model car with similar equipment has narrowed since 1964. The narrowing of the price differential has been greater at the manufacturers level than at the retail level because of increases in the Canadian sales tax.

PRODUCTION AND EMPLOYMENT

It is difficult to estimate how much of the increased assembly of finished vehicles in Canada was at the expense of U.S. assembly operations. It does appear that vehicle manufacturers have met the Canadian requirements to a greater extent by increased assembly operations than by parts production and parts procurement in Canada.

As noted in the analysis, there have been some shifts within the North American automotive industry in both directions. Automotive employment in both countries has increased. North American rationalization has increased job opportunities in some U.S. plants.

ADJUSTMENT ASSISTANCE

In recognition that the operation of the Agreement might cause dislocations to some firms or workers as the industry moved toward integration with Canada, the Automotive Products Trade Act provided for a special adjustment assistance program. Petitions for assistance under this program can be filed through June 30, 1968. In the proposed Trade Expansion Act of 1968 (H.R. 17551), the President has recommended that the program be extended for three years.

Adjustment assistance has involved only a small proportion of the more than 800,000 workers employed in the automotive industry. To date, 21 petitions for relief have been filed by groups of workers who claimed that they became unemployed because of the U.S.-Canadian Agreement. The Automotive Agreement Adjustment Assistance Board determined that the operation of the Agreement was the primary cause of dislocation for 14 of these petitions and issued certifications of eligibility covering about 2,500 workers, approximately half the number originally petitioning for assistance. The facts in many instances indicated that the primary reason for the layoffs of many workers was the slump in automobile sales (in early 1967) rather than the Auto Agreement.

Not all of the workers certified by the Board actually applied for assistance at their State Employment Security agencies, or, upon application were determined to have complied with the special requirements of the law. About 1,850 individuals did apply and met the standards. They have received benefits of about \$3.5 million. Many of the dislocated workers have been either recalled to their former job, found new work, or left the labor force. On December 31, 1967, only about 325 of all auto-workers who had received adjustment assistance were unemployed.

About 2,400 of all workers who petitioned were employed in assembly plants. About 685 such workers were among the total 2,500 certified by the Board as having been dislocated as a result of the Agreement.

JOINT REVIEW OF THE AGREEMENT

In accordance with article IV(c) of the Agreement, the Governments of Canada and the United States are at the present time jointly undertaking a comprehensive review of the progress made towards achieving the objectives of the Agreement. During the current review the two Governments are also considering such further steps as may be necessary or desirable for the full achievement of these objectives.

It is not yet clear what changes will result from the review. However, in accordance with Section 205(a) of the Automotive Products Trade Act of 1965, the President will submit a special report on the review to Congress not later than August 31, 1968.

In accordance with Section 205(b) and (c) of the Automotive Products Trade Act, the President is also required to report to Congress and recommend further steps necessary for the achievement of the purposes of the Agreement and the Act if he finds that any manufacturer has entered into any undertaking, by reason of governmental action, to increase Canadian value added after August 31, 1968. We have thus far no reason to believe that as a result of the review there will be further undertakings by manufacturers to the Canadian Government to increase Canadian value added.

CONCLUSION

We believe the U.S.-Canada Automotive Agreement has clearly benefited the industry, labor, and consumers of both countries. Commerce has grown and efficiency in the use of labor, capital and materials has been increased. The industries of both countries have already moved far toward the goal under the Agreement of specialization and large-scale production. The reduced U.S. net automotive export surpluses in 1967 appears to have been largely the result of relatively poor sales and the transition to an integrated North American industry. As the current joint comprehensive review is completed and in our continuing consultations with the Government of Canada, we will be determined to see that every effort is taken to achieve fully the objectives of the Agreement.

APPENDIX B
(Questions Submitted in Writing to Witnesses)



DEPARTMENT OF STATE,
Washington, D.C., July 31, 1968.

Mr. TOM VAIL,
Chief Counsel, Committee on Finance, U.S. Senate, Washington, D.C.

DEAR MR. VAIL: As requested in your letter of July 23, 1968, enclosed herewith are responses to the questions prepared by Senators Gore and Hartke to complete the record of the Committee's hearing on the United States-Canada Automotive Products Agreement. The answers were prepared jointly by the Departments of State and Commerce.

Sincerely yours,

JULIUS L. KATZ,
Deputy Assistant Secretary for International Resources and Food Policy.
Enclosures as indicated.

JOINT STATE/COMMERCE ANSWERS TO QUESTIONS PREPARED BY SENATORS GORE AND
HARTKE ON THE UNITED STATES-CANADA AUTOMOTIVE PRODUCTS AGREEMENT

Question. Thus far, at least in its balance of trade aspects, it would appear that the Canadian Automobile Agreement has worked to the advantage of Canada. Has the United States received any benefits not related to automotive trade?

Answer. From 1964 through 1967 United States exports of automotive products to Canada increased from \$650 million to at least \$2 billion. Imports from Canada also increased from \$75 million in 1964 to \$1.5 billion in 1967. In 1965 the United States export surplus increased by about \$100 million, but has declined in the two subsequent years and, based on trends in the early part of the year, a further decline is likely in 1968.

However, trade statistics for automotive products do not present the whole picture. Production and trade in products not strictly identified as automotive products have also increased under the influence of the Agreement. Such items as paint, tooling, fabrics, rubber products including tires, special types of steel, chemicals, and material handling equipment are not included in automotive statistics and it is not possible directly to relate increased production and trade in these associated products to the operation of the Agreement. Industry sources, however, estimate that as a consequence of plant expansions and increased output, United States exports to Canada of these products amounted to between \$175 and \$200 million in 1967. One company has told the Department of Commerce that the cost of tooling provided from the United States to its Canadian plants grew from \$3.7 million in 1964 to \$24 million in 1967.

United States exports of consumer goods and tourist services, etc. have also benefited from increased Canadian incomes generated by the growth in employment. About 16.5 percent of the Canadian gross national expenditure has been devoted to purchase of United States goods and services.

One of the principal objectives of the Agreement was the creation of a broader market for automotive products within which the full benefits of specialization and large-scale production could be achieved. This has occurred. Fewer car models are now assembled in Canada, and Canadian market demand for the models no longer produced in Canada is supplied entirely from plants in the United States. Other indications of progress toward the objectives of the Agreement have been the narrowing of the differential between prices of cars in Canada as compared with the United States, and agreement between labor and management in contracts concluded in 1967-8 to achieve parity of wages by mid-1970 between workers in automotive plants in Canada and those in the United States.

The significant liberalization of trade in most automotive products and the decision to create an integrated, combined United States-Canadian automotive market have clearly strengthened the close economic relations between the two friendly neighbors. The increase in automotive trade, production, and employment since 1964 has been beneficial to the consumers, labor, and industry of the United States, as well as Canada.

Question. According to testimony given by Mr. William C. McCamant to the Finance Committee, U.S. automotive parts producers do not, and did not support this agreement. What evidence do you have of such support?

Answer. During the 1965 Senate Finance Committee and House Ways and Means Committee hearings on the legislation to implement the Agreement, several manufacturers of automotive parts and accessories sent written communications to express support of the Automotive Products Trade Act. Among the firms which endorsed the Agreement were some of the smaller firms and some of the largest independent manufacturers of parts, such as Dana Corporation, Rockwell Standard Corporation (now North American Rockwell), Kelsey Hayes Company, and Eaton Manufacturing Company (now Eaton Yale and Towne).

In 1965 the above-named companies and eight others formed a new trade association—the Automotive Original Equipment Manufacturers Association (AOEM). AOEM now has 13 member companies with reported annual sales of about \$6 billion and 340,000 employees.

In early 1968 in connection with the joint review, the U.S. Government invited manufacturers and trade associations to express informally their views on the Agreement at a series of meetings held at the Department of Commerce. Those AOEM members present—9 of the 13 members—reported that their experience under the Agreement had been either favorable or neutral, and all continued to support the Agreement, although they believed it desirable to include at least some replacement parts under the Agreement.

Another industry association—the Motor Equipment Manufacturers Association (MEMA) composed of about 500 manufacturers of automotive parts, accessories, equipment, tools, and chemicals—has taken no position, as an association, on the Agreement either in 1965 or during the informal 1968 consultations at the Department of Commerce concerning the joint review. However, in a letter to the Department of Commerce in April 1968, MEMA said:

“Our overall assessment is that the U.S. automotive parts industry, as a whole, does not seem to have suffered, during the period that the agreement has been in force, the serious adverse effects from the U.S.-Canadian Automotive Agreement which some had been anticipating. However, we do not believe that this can safely be interpreted as proof that the agreement will necessarily benefit the parts industry as a whole or, alternatively, that the long-term effect will be neutral. The salient fact is that the unprecedented prosperity in the automotive industry, whereby U.S. factory sales of passenger cars increased by about 25 percent from 1964 to 1966, has made it very difficult to appraise meaningfully many of the specific effects of the agreement.”

As we understand the current position of the Automotive Service Industry Association (ASIA), as expressed to the Committee on July 19 by William C. McCamant, Washington representative, ASIA opposes the Agreement as now constituted and the separate 1965 letters of undertaking between Canadian vehicle manufacturers and the Canadian Government. However, ASIA fully supports free trade between the United States and Canada for all automotive products, including replacement parts. We believe that this position is clearly consistent with the stated objectives of the Agreement. While the interim transitional arrangements affecting growth in Canadian production as set forth in Annex A of the Agreement which permit the smaller and higher cost Canadian industry to adjust operations to the North American market will not be dismantled fully as a result of the current joint review, the United States Government remains determined to see that the objectives of the Agreement are fully achieved at the earliest practicable date.

The Departments of State and Commerce have received virtually no complaints from parts manufacturers since the implementation of the Agreement in 1964. No parts company has applied for adjustment assistance.

Question. Reference has been made to a report which is to be made to the Congress not later than August 31, 1968. Will this report contain recommendations contemplated by Article IV (c) of the Agreement? Will the review, begun presumably last December, be completed by August 31?

Answer. A report will be sent to the Congress by August 31 as required by Section 205(a) of the Automotive Products Trade Act of 1965. The report will cover the comprehensive review and the progress which has been made toward the achievement of the objectives of the Agreement. As required by Section 205(c), the special report will also include such recommendations as may be appropriate for further steps necessary for the achievement of the purposes of the Agreement and the Act.

The review began in December 1967 and is still in progress. Several meetings were held before the review was interrupted by the dissolution of the Canadian Parliament, the national elections, and the appointment of a new Cabinet. We are not certain whether the joint review with the Government of Canada will be completed by August 31 but, as noted above, a full status report will be made to the Congress by that date and, if the review should not then be completed, a final report will be submitted later.

Question. Have any discussions been held relative to the extension of duty-free treatment to replacement parts? Other commodities?

Answer. During the joint comprehensive review with the Government of Canada consideration was given to broadening the Agreement to include at least some automotive parts and accessories for other than original equipment. However, it was felt by the United States representatives that any limited expansion of product coverage to include some but not all replacement parts would result in administrative and inventory difficulties and would not clearly constitute progress toward the objectives of the Agreement. Both Governments are expected to continue to keep the possibility of including replacement parts within the Agreement under consideration but no modification of United States treatment of Canadian replacement parts is expected to be recommended as a result of the current joint review.

During the review the two Governments also considered, at the suggestion of the Government of Canada, possible amendment of the Agreement to cover tires and tubes; special purpose vehicles; and tooling. Motor vehicle tires and tubes are presently duty-free when mounted on a motor vehicle but are dutiable when imported separately, either for original equipment or replacement use. Consultations were held by the Department of Commerce with rubber manufacturers but little interest was expressed in coverage under the Agreement of tires and tubes at this time.

It was generally felt that the broader market and integration considerations relative to production of passenger automobiles, buses, and trucks did not exist to the same degree in the case of special purpose vehicles designed to perform limited functions. In addition, difficulties were experienced in defining and describing such vehicles.

In the case of tooling, United States officials expressed the view that trade in such products was not particularly confined to the automotive industry. It was also pointed out that future U.S. trade policy with respect to further trade liberalization was being studied by the President's Special Representative for Trade Negotiations.

GENERAL MOTORS CORPORATION,
GENERAL MOTORS BUILDING,
Detroit, July 61, 1968.

Mr. TOM VAIL,
Chief Counsel, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. VAIL: Enclosed are the answers to the questions by Senators Gore and Hartke sent to me in connection with the hearings on the Automobile Trade Agreement.

Also attached are answers to Senator Clinton P. Anderson's questions which we were requested to submit for the record.

Very truly yours,

H. W. WELCH,
General Assistant Comptroller.

Enclosures.

GENERAL MOTORS RESPONSES TO SENATORS GORE AND HARTKE QUESTIONS*

Question No. 1. Mr. Markley has testified with respect to Ford Motor Company's balance of trade with Canada. What was the balance of trade for each of the years 1964 through 1967, and the first five months of 1968, for your company? For your independent original equipment parts suppliers?

Answer. In 1964, General Motors and its suppliers exported \$241 million worth of automotive goods to Canada. There were no significant imports in that year. In subsequent years, our net favorable U.S. automotive balance totals were approximately as follows: 1965, \$300 million; 1966, \$270 million; 1967, \$240 million. For the first five months of calendar year 1968, our estimated net favorable

*See also p. 97 for additional response to question No. 3.

automotive balance with Canada was in excess of \$100 million. This period has been affected by strikes on both sides of the border, particularly in Canada.

With respect to the independent original equipment parts suppliers, we do not know their total trade balance with Canada. However, the net amount included in the General Motors totals above for outside suppliers' trade balance on General Motors vehicles in 1964 was \$48 million; 1965, \$66 million; 1966, \$56 million and 1967, \$55 million. The amount for the first five months of 1968 is estimated to be substantially reduced from the 1967 level because of the work stoppage at GM of Canada in February and March.

Market demand, particularly in 1965, and the time required to implement facilities integration under the Agreement importantly influenced these amounts.

Question No. 2. On page 108 of the Hearings before the Finance Committee in 1965 is a table showing earnings and dividend distributions of the Canadian subsidiaries of GM, Ford and Chrysler for certain years. Please furnish similar data for subsequent years.

Answer. The earnings and dividend distributions of the Canadian automotive manufacturing subsidiaries of General Motors, Ford and Chrysler for 1961 through 1964 contained on Page 108 of the 1965 Hearings of the U.S.-Canadian Automobile Agreement were supplied by the U.S. Treasury Department. The continuity and consistency of the tabulation to which you refer can best be assured by developing consolidated information for the three companies on the same basis as in 1965.

Question No. 3. Mr. O'Keefe stated, "Totally apart from the Agreement, the Canadian Government continues to persist in seeking higher Canadian content than the current requirements." What form does this pressure take with respect to your company? Have you reported this to our State Department? Have you agreed, or do you intend to agree, to any additional undertakings with respect to Canadian content? Have representatives of your Canadian subsidiaries held any conversations, formal or informal, with Canadian officials along this line? Are there any verbal understandings?

Answer. As required by law, the U.S. and Canadian Governments initiated discussions in connection with this Agreement in December, 1967. The United States Government advised us that these discussions were being carried on and subsequently we had several conversations with them.

As a result of these early discussions, we have been informed that a "working party" of U.S. and Canadian Government representatives was established for the purpose of recommending changes in certain areas related to the Agreement. Two areas reportedly have been discussed—one being an effort to coordinate the automotive balance of payment statistics, and the other related to the simplification of paper work in connection with the shipments back and forth across the border. The outcome of these discussions has not been reported.

We have learned that the Canadian Government has held exploratory discussions with General Motors of Canada. The Canadian Government wishes to be assured that the Canadian manufacturers will maintain an equitable share of the market growth on the basis that without this their current balance of automotive trade with the U.S. would deteriorate. At the same time, they have also indicated a willingness to consider reviewing certain other parts of the Agreement in the interest of providing more efficient operations under the Agreement—for example, taxes on equipment purchased in the U.S. for Canadian production, customs paper work and other similar details.

As to any additional undertakings with respect to Canadian content, we have made no agreement. In fact, we have made our opposition to such undertakings clearly known to both Canadian and U.S. representatives. Our position continues to be that an extended period of years is required to accomplish in an efficient way the required integration that we have been working on since 1964. General Motors has no understanding whatever with the Canadian Government with respect to additional undertakings, verbal or otherwise.

Question No. 4. Contracts must have been let to suppliers some time ago for 1969 models. What formula for Canadian content are you using for the 1969 model? What percentage of Canadian content did your 1968 production (and Canadian sales) average?

Answer. There is no formula for our purchasing activities in connection with Canadian content. Both the U.S. and Canadian suppliers are selected after giving careful consideration to quality, ability to deliver and on time, and price. We also attempt to estimate what change may be made as compared with the current volume of business they are doing with us. It is important to note that a great many of our parts change every year, sometimes necessitating a change

in supplier. For example, a part may be redesigned to change it from plastic to steel. Further, the volume of business done with our individual suppliers is importantly influenced by the market demand for the particular models on which each supplier's parts are used. Therefore, the volume of an individual supplier's production will vary with the volume of sales of individual car models and options, as well as with fluctuations in total sales.

As to the percentage of Canadian content related to our 1968 production and Canadian sales, it is assumed that this refers to the percentage of Canadian Value Added to the total factory cost of Canadian sales. This is in the area of 71% for General Motors.

Question No. 5. Has the Agreement worked out about as your company expected?

Answer. Yes. This question was answered in the General Motors statement. We stated that the Agreement has not worked out any differently than we anticipated and is in accordance with our expectations when General Motors testified before the Senate Finance Committee on September 14, 1965. Three years ago we said that the United States-Canadian Automotive Trade Agreement was a workable plan. We still believe that it is, and that progress has been made since its inception in accomplishing the original objectives agreed upon by both countries.

Question No. 6. Have you at all times met all requirements imposed on you by the Government of Canada? Have you had to pay duty on any automobiles sold in Canada during the life of the Agreement? Are all requirements now being met?

Answer. We have met all requirements stipulated by the Automotive Trade Agreement. However, the seven-week strike in our Canadian plants during last February and March of this year, of course, shut down our production in Canada during that period. It is doubtful that the required Canadian Value Added will be attained in the 1968 model year, although the estimated amount will be within 2% or 3%.

As to duty payments, we have not paid duty on any automobiles sold in Canada during the life of the Agreement.

Question No. 7. Has the Agreement had any effect on your competitive position either in Canada or in the United States vis-a-vis foreign type automobiles? Have the activities of companies manufacturing European or Japanese type automobiles in Canada increased during the years of the Agreement?

Answer. No. The Agreement has had minimal affect on our competitive position either in Canada or the United States.

Production of European and Japanese type cars in Canada has been initiated since the U.S.-Canadian Trade Agreement was signed. However, we have no knowledge that any of these manufacturers have exported vehicles from Canada to the U.S.

Question No. 8. Mr. Welch has testified that insofar as General Motors is concerned the Canadian Auto Agreement has not significantly affected, one way or another, GM's work force in either the United States or Canada during the period of the Agreement. What effect has the Agreement had on your company's work force (including the work force of Canadian subsidiaries of your company) both in the United States and in Canada? On the labor force of your principal suppliers?

Answer. As General Motors stated on July 19, our total employment in the United States and in Canada is higher now than it was four years ago. Mr. Welch testified that our employment in the United States in the second quarter of 1968 was up about 11 percent over the second quarter of 1964. He also said that except for a few temporary dislocations, the number of jobs at General Motors has not been affected substantially in either the United States or Canada by virtue of the Agreement.

As to the possible impact on the employment levels at GM's principal suppliers, we have no knowledge of any substantial effect. We have reviewed all claims reported to us relating to automotive suppliers made under the adjustment assistance provisions of the U.S. Automotive Trade Act, and we believe that there were no significant dislocations to GM suppliers related to GM procurement.

Question No. 9. Furnish the names of those of your independent suppliers who have transferred to, relocated in, or opened or expanded productive facilities in Canada during the period of the Agreement, if such information is available to you. Give the volume of business that your company (including Canadian subsidiaries) had with each such supplier for the following years: 1963, 1964, 1965, 1966, 1967, 1968 (to date). In addition to the above, furnish the names of those of your independent suppliers who have announced to you plans to

transfer, relocate or open or expand productive facilities in Canada but have not yet done so. As to this latter group, give the volume of business that your company (including Canadian subsidiaries of your company) had with each such supplier for the following years: 1963, 1964, 1965, 1966, 1967, 1968 (to date).

Answer. Such information as is available to us indicates that productive facilities have been transferred to, relocated in, or opened or expanded in Canada during the period of the Agreement by the following companies: Dana Corporation, Budd Company, Timken Roller Bearing Company, Kelsey-Hayes Company and Duplate Canada Ltd. (partially owned subsidiary of PPG Industries Inc.)

Purchases by General Motors and its Canadian subsidiaries from these companies for the calendar years 1963-67 are as follows:

(Amounts in thousands)

	Principal product purchased	Calendar year purchases				
		1963	1964	1965	1966	1967
Dana Corp. and Hayes-Dana Ltd.	Frames	\$75,867	\$93,818	\$110,087	\$102,214	\$113,606
Budd Co. and Budd Automotive Co. of Canada Ltd.	do	45,128	44,868	70,583	69,237	59,711
Timken Roller Bearing Co. and Canadian Timken Ltd.	Bearings	12,174	14,815	14,655	14,115	12,203
Kelsey Hayes Co. and Kelsey Hayes Canada Ltd.	Wheels	53,938	54,159	69,549	66,914	66,611
PPG Industries Inc. and Duplate Canada Ltd.	Glass	41,082	44,937	73,761	69,941	69,344

Data for 1968 are not yet available.

The change in volume of business year-to-year is importantly affected by the market demand for the models on which particular supplier parts are used.

We understand that Libby-Owens-Ford Glass Company will have capacity in Canada in 1969. Our purchases from L-O-F in the United States have been (amounts in thousands):

Libby-Owens-Ford (glass):

1963	\$140,334
1964	135,620
1965	176,621
1966	162,566
1967	148,778

Question No. 10. Furnish the names and locations of each of your independent suppliers in the United States with whom you did business prior to the Agreement but with whom, as a consequence of the Agreement and/or your commitments to the Canadian government, you either (1) no longer do business with such supplier, or (2) do significantly less business. (In preparing the listing you may exclude all such suppliers whose annual volume of business with your company in the calendar year 1964 was less than \$200,000). Give the volume of sales of these companies to your company for the following years: 1963, 1964, 1965, 1966, 1967, 1968 (to date).

Answer. There were more than 3,500 suppliers in the United States with which General Motors did \$200,000 or more business in 1964. A review indicates that in the period covered by the question there have not been any instances brought to our attention in which, as a consequence of the Agreement, General Motors no longer does business with such suppliers or does significantly less business with them.

GENERAL MOTORS RESPONSES TO SENATOR ANDERSON'S QUESTIONS

Question No. 1. How much has General Motors invested in accommodating to the requirements of the treaty (the U.S.-Canadian Automotive Products Trade Act)?

Answer. General Motors subsidiaries in Canada have invested approximately \$100 million of capital spending in accommodating to the requirements of the treaty (the U.S.-Canadian Automotive Products Trade Act). This does not in-

clude substantial costs related to rearrangement, training of employees, shipping equipment and so forth.

Question No. 2. Are these expenditures, which you have testified to, expenditures which General Motors would not have made if the trade pact had not been entered into?

Answer. We would have expected to make important capital investments in Canada to provide facilities to meet the fast growing Canadian market. However, it is improbable that we would have made as much of a capital investment as we have at this time—in advance of the anticipated growth of the Canadian market—without the Automotive Trade Agreement. Timing is an important factor in this situation.

Question No. 3. What expenditures would result from a termination of the pact at this time which would otherwise not occur?

Answer. The problem would have to be evaluated in the light of what countermeasures Canada might take if the pact were terminated, and this would be very speculative. However, if we went back to where we were before the pact, we would have to "de-integrate" our production, and this would be very costly.

The most important problem—and one that could be extremely expensive—is that temporarily we could have idle facilities in both Canada and the United States, while other facilities could be working on overtime in excess of rated capacity. The dollar penalty of such an inefficient situation—one that would be undesirable to both the United States and Canada—would be virtually impossible to calculate in advance.

Question No. 4. What do you estimate the total cost to General Motors would be if the trade pact should be terminated in the next year?

Answer. The answer to the previous question commented upon this point. The cost would be very substantial both from the standpoint of facilities which could not be used and the inefficiencies of lower volume production.

CHRYSLER CORP.,
July 30, 1968.

Mr. TOM VAIL,
Chief Counsel, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. VAIL: Enclosed are the Chrysler Corp. answers for the questions prepared by Senators Gore and Hartke for the hearings on Canadian Automobile Agreement.

The time limit set for our response did not permit securing the data for all years in answer to Question No. 9 or to consolidate the U.S. and Canadian data. We believe the data furnished, however, should be adequate for the Committee's purposes. If the Committee feels that the additional data is required, please let me know and we will endeavor to furnish it at a later date.

We trust that the enclosures are satisfactory.

Very truly yours,

BRIAN T. O'KEEFE,
Manager, Special Studies and Defense Administration.

Enclosures.

UNITED STATES-CANADIAN AUTOMOTIVE TRADE AGREEMENT

1. Mr. Markley has testified with respect to Ford Motor Company's balance of trade with Canada. What was the balance of trade for each of the years 1964 through 1967, and the first five months of 1968, for your company? For your independent original equipment parts suppliers?

The schedule below sets forth this data with respect to Chrysler Corporation. Please note that the data differs from our original schedule submitted on July 10, 1968, with respect to the year 1967. Unfortunately the limited time to prepare for the hearing did not permit absolute verification of that data which was partially in error. It is requested that the record be corrected to use only this schedule.

CHRYSLER CORP. BALANCE OF TRADE¹ CANADA-UNITED STATES, CALENDAR YEARS

(In millions of U.S. dollars)

	1964	1965	1966	1967	1st 5 months 1968
Chrysler Corp. sales to Chrysler Canada.....	\$69.4	\$142.8	\$237.4	\$363.4	\$175.4
Chrysler Corp. charges to Chrysler Canada.....	3.7	4.8	12.5	28.0	11.9
Subtotal.....	73.1	147.6	249.9	391.0	187.3
Chrysler Canada sales to Chrysler Corp.....	25.5	76.0	228.4	337.8	160.7
Net Chrysler balance.....	47.6	71.6	21.5	53.2	26.6
Other U.S. vendors sales to Chrysler Canada ²	28.7	45.4	64.1	81.1	34.8
Other Canadian vendors sales to Chrysler Corp.....	7.6	17.3	32.1	49.2	29.4
Net vendor balance.....	21.1	28.1	32.0	31.9	5.4
Combined balance on Chrysler business.....	68.7	99.7	53.5	85.1	32.0

¹ Data includes automotive and nonautomotive products.² Vendor's sales include not only original equipment parts, but durable replacement parts as well.

2. On page 108 of the Hearings before the Finance Committee in 1965 is a table showing earnings and dividends distributions of the Canadian subsidiaries of GM, Ford and Chrysler for certain years. Please furnish similar data for subsequent years.

CHRYSLER CANADA, LTD.

(In U.S. dollars)

Year	Net earnings	Dividends
1963.....	\$17,689,297.18	.....
1964.....	20,861,394.47	.....
1965.....	15,768,764.25	.....
1966.....	12,046,301.43	\$18,500,000
1967.....	26,847,715.51	.....

3. Mr. O'Keefe stated, "Totally apart from the Agreement, the Canadian Government continues to persist in seeking higher Canadian content than the current requirements." What form does this pressure take with respect to your company? Have you reported this to our State Department? Have you agreed, or do you intend to agree, to any additional undertakings with respect to Canadian content? Have representatives of your Canadian subsidiaries held any conversations, formal or informal, with Canadian officials along this line? Are there any verbal understandings?

Chrysler Corporation (U.S.) has had no direct discussions with the Government of Canada concerning the Canadian-U.S. Automotive Trade Agreement or any commitments with respect to the operations of Chrysler Canada, Ltd.

Chrysler Canada, Ltd. has informed us of their discussions with representatives of the Canadian Government. The Department of Industry, Trade and Commerce of Canada has a long standing practice of regular meetings with representatives of the Canadian Motor Vehicle Manufacturers' Association, including Chrysler Canada, Ltd. For approximately a year, these meetings have centered around a review of the progress in achieving the commitments made in 1965 and the Canadian Government's strong desire for additional undertakings for the years after 1968. The discussions have also considered various areas of relief from current Canadian restrictions.

The Canadian Government requested that Chrysler Canada, Ltd. sign a new undertaking to achieve Canadian value added of 75 percent by model year 1971 and 80 percent by model year 1974. Chrysler Canada, Ltd. supplied Chrysler Corporation with a draft copy of that letter and has informed us of a number of telephone conversations and meetings between various ranking Canadian Government officials and top executives of Chrysler Canada, Ltd.

Chrysler Canada, Ltd. has informed us that they have not agreed to any additional undertakings with the Government of Canada, either by letter or verbally, as to value added, sales ratio or investment. Chrysler Canada, Ltd. must con-

tinue to fulfill the 1965 commitment and comply with other restrictions imposed by the Government of Canada. Any new undertaking which provided mutual benefits would be considered by Chrysler Canada, Ltd. on its merits.

Chrysler Corporation (U.S.) has normally maintained contact with Mr. E. G. Smith, Director, Office of Industrial Equipment, U.S. Department of Commerce, with respect to the Canadian-U.S. Automotive Trade Agreement. To our knowledge, he has passed any information received from us, on to the State Department. We have reported to Mr. Smith, at regular meetings and by telephone, any information we have received from Chrysler Canada, Ltd., including providing him with a copy of the draft letter that the Canadian Government requested Chrysler Canada, Ltd. sign. We have discussed with the State Department and the Commerce Department possible future changes in the Agreement and in the U.S. Automotive Products Trade Act of 1965.

4. Contracts must have been let to suppliers some time ago for 1969 models. What formula for Canadian content are you using for the 1969 model? What percentage of Canadian content did your 1968 production average?

Materials have been sourced for the 1969 models to meet the requirements of the Canadian Motor Vehicles Tariff Order 1965, which require Canadian value added equal to, or greater than, the Canadian value added in each class of vehicles, namely Passenger Cars, Trucks and Buses, produced in Canada in the base year ended July 31, 1964, plus the manufacturer's commitment to increase in each model year the Canadian value added in the production of vehicles and original equipment parts by an amount equal to 60% in the growth of the market for passenger cars, 50% for trucks, and 40% for buses, plus a further increase of \$33 million in Canadian value added in the production of vehicles and original equipment parts, over and above the amount achieved in the base year.

Percentage of Canadian content to 1968 production is not yet available, but, based on the 1967 model year, which should not vary greatly, the percentage of Canadian content to total passenger car production was approximately 42% and the percentage of Canadian content to total production of passenger cars, trucks, buses, and engines, etc., produced for export was approximately 45%.

5. Has the Agreement worked out about as your company expected?

Yes.

6. Have you at all times met all requirements imposed on you by the Government of Canada? Have you had to pay duty on any automobiles sold in Canada during the life of the Agreement? Are all requirements now being met?

We have to date met all requirements imposed on us by the Canadian Government.

Chrysler Canada has paid duty on vehicles sold in Canada during the life of the Agreement as follows:

(In thousands Canadian dollars)

	Units	Value
1965:		
Passenger cars.....	4,517	\$10,405
Trucks.....	7	84
1966 trucks.....	21	184
1967 trucks.....	16	245

¹ Due to strike.

All requirements are now being met.

7. Has the Agreement had any effect on your competitive position either in Canada or in the United States vis-a-vis foreign type automobiles? Have the activities of companies manufacturing European or Japanese type automobiles in Canada increased during the years of the Agreement?

The activities of companies manufacturing European and Japanese type automobiles has increased during the years of the Agreement, as follows:

Years:	Percent of total N/A industry
1964	10.7
1965	11.5
1966	10.9
1967	12.1
1968	12.0

Trade Agreement has basically had little or no effect on increased penetration. 8. Mr. Welch has testified that insofar as General Motors is concerned the Canadian Auto Agreement has not significantly affected, one way or another, GM's workforce in either the United States or Canada during the period of the Agreement. What effect has the Agreement had on your company's work force (including the work force of Canadian subsidiaries of your company) both in the United States and in Canada? On the labor force of your principal suppliers?

Both Chrysler Corporation (U.S.) and Chrysler Canada, Ltd. have benefitted in recent years from improvement in our position within the industry. Annually, we have increased the percentage of total industry sales made by us in each country, and consequently our employment in each country. Our independent parts suppliers have also benefitted from our increased business through increased sales to us and have increased their employment to meet the production required. We are unable to isolate any significant employment change in either country which results from the Agreement.

9. Furnish the names of those of your independent suppliers who have transferred to, relocated in, or opened or expanded productive facilities in Canada during the period of the Agreement, if such information is available to you. Give the volume of business that your company (including Canadian subsidiaries) had with each such supplier for the following years: 1963, 1964, 1965, 1966, 1967, 1968 (to date). In addition to the above, furnish the names of those of your independent suppliers who have announced to you plans to transfer, relocate or open or expand productive facilities in Canada but have not yet done so. As to this latter group, give the volume of business that your company (including Canadian subsidiaries of your company) had with each such supplier for the following years: 1963, 1964, 1965, 1966, 1967, 1968 (to date).

Chrysler Canada, Ltd.'s Purchasing Department reports the following new Canadian supplier companies and suppliers who expanded, with their purchases in Canadian dollars as shown on the schedules.

NEW

Motor Wheel Corporation of Canada Limited, Chatham, Ontario.
Eaton Springs Canada Ltd., Chatham, Ontario.
Windsor Bumper Co. Ltd., Windsor, Ontario.
Eaton Precision Products Canada Ltd., Wallaceburgh, Ontario.
Carter Carburetor of Canada Ltd., Bramalea, Ontario.

EXPANDED

Canadian Filters Ltd., Chatham, Ontario (owned by Fram, U.S.A.).
Kelsey Hayes Canada Ltd., Windsor, Ontario.
Long Manufacturing Division, Borg Warner (Canada) Ltd., Oakville, Ontario.
Sun Tool, Windsor, Ontario.
Essco Stamping, Windsor, Ontario.
Standard Tube & T. I. Ltd., Woodstock, Ontario.
Houdaille Industries, Oshawa, Ontario.
Canadian Motor Lamp, Windsor, Ontario.
Phillips Electronics Industries Ltd., Toronto, Ontario.
Wallace Barnes Co., Ltd., Hamilton, Ontario.
Ontario Steel Products Co., Ltd., Toronto, Ontario.
Blackstone Industrial Products Ltd., Stratford, Ontario.

	1963	1964	1965	1966	1967	1968 to date
New:						
Motor Wheel.....	(0)				\$1,913,355	\$262,163
Eaton Springs.....	(0)				762,652	402,188
Windsor Bumper.....	(0)			\$723,809	1,305,822	871,856
Eaton Precision Products.....	(0)				67,307	440,743
Carter Carburetor.....	(0)		\$54,000	408,889	1,086,118	871,889
Expanded:						
Canadian Filters Ltd.....	(0)	\$207,252	181,274	364,335	379,660	244,407
Kelsey Hayes Canada Ltd.....	(0)	3,792,328	2,202,367	4,373,862	4,745,747	2,404,921
Long Manufacturing.....	(0)	77,071	36,997	506,224	283,006	6,826
Sun Tool.....	(0)	393,715	266,041	271,188	358,000	132,534
Essco Stamping.....	(0)	625,109	413,909	857,887	384,681	299,138
Standard Tube.....	(0)	534,985	470,242	747,448	959,069	25,540
Houdaille Industries.....	(0)	317,373	556,763	1,000	63,165	1,569,063
Canadian Motor Lamp.....	(0)	1,275,639	612,259	1,176,014	1,584,267	658,807
Philips Electronics Industry Ltd.....	(0)	592,553	459,814	1,738,790	3,019,457	2,073,568
Wallace Barnes Co., Ltd.....	(0)	317,374	258,086	393,933	367,113	194,760
Ontario Steel Products.....	(0)	3,757,584	2,234,016	456,881	3,591,749	2,449,388
Blackstone Industrial Products.....	(0)	682,383	850,119	1,542,337	1,167,338	219,902

† Not available.

Chrysler Corporation's (U.S.) Purchasing Department reports that the suppliers listed below have all expanded or located in Canada and they issued purchase orders for 1966, 1967 and the first five months of 1968 as shown. Data for earlier years was not available in the time permitted for answers, but the total purchases shown in our answer to Question No. 1 indicate it was substantially less.

CHRYSLER CORP. (U.S.), SCHEDULED PURCHASES FROM CANADIAN VENDORS

(In millions of U.S. dollars)

	1966	1967	5 months 1968
A. C. F. Industries.....	\$0.3	\$0.3	\$0.2
Associated Spring.....	.2	.6	.4
Bendix.....	1.2	3.3	2.3
Blackstone Corp.....	.3	1.3	1.5
Borg-Warner Corp.....	3.8	3.1	1.3
Eaton Yale & Towne.....	2.1	3.4	2.5
Essco Stamping.....	.3	.6	.3
Goodyear Tire & Rubber.....	.4	2.2	1.4
Gulf & Western.....	2.4	5.1	2.2
Kelsey Hayes.....	4.5	4.8	2.1
Noranda Mines.....	.7	2.1	.6
North American Rockwell.....	18.4	20.2	9.2
Philips Electronics.....		.7	.6
Standard Tube.....	.5	.6	.1
Sun Tool & Stamping.....	.4	.5	.2

10. Furnish the names and locations of each of your independent suppliers in the United States with whom you did business prior to the Agreement but with whom, as a consequence of the Agreement and/or your commitments to the Canadian government, you either (1) no longer do business with such supplier, or (2) do significantly less business. (In preparing the listing you may exclude all such suppliers whose annual volume of business with your company in the calendar year 1964 was less than \$200,000.) Give the volume of sales of these companies to your company for the following years: 1963, 1964, 1965, 1966 1967, 1968 (to date).

Chrysler Corporation has no knowledge of any independent parts supplier to us going out of business or doing significantly less business with us because of the Agreement. Any sourcing changes which have occurred resulted from economic considerations totally apart from the Agreement in the normal course of our purchasing activities and generally involved price, quality of production, ability to meet delivery requirements and capacity to supply needed volumes.

FORD MOTOR CO.,
Dearborn, Mich., August 1, 1968.

Mr. TOM VAIL,
Chief Counsel, U.S. Senate Committee on Finance,
Washington, D.C.

DEAR MR. VAIL: Enclosed are Ford Motor Company's responses to the questions on the Canadian Automobile Agreement that you forwarded to Mr. Markley's office on July 23. Please note that Questions 9 and 10 involve additional searches for information; we shall supply answers to these as soon as feasible.

Sincerely,

FRED G. SECREST,
Vice President-Controller.

Enclosures.

Question 1. Mr. Markley has testified with respect to Ford Motor Company's balance of trade with Canada. What was the balance of trade for each of the years 1964 through 1967, and the first five months of 1968, for your company? For your independent original equipment parts suppliers?

Answer. Ford Motor Company's calendar year balance of trade with Canada is summarized below for 1964 through the first five months of 1968.

FORD MOTOR CO. UNITED STATES-CANADIAN BALANCE OF TRADE

(In millions U.S. dollars)

	Calendar years—					
	1964	1965	1966	1967	5 months 1968	5 months 1967
Exports to Canada.....	\$228.9	\$334.2	\$626.1	\$740.1	\$476.4	\$324.2
Imports from Canada.....	45.0	74.5	425.4	570.4	411.3	257.3
Balance, favorable to United States.....	183.9	259.7	200.6	169.7	65.1	66.9
Memo: Independent suppliers' favorable balance ¹ ..	30.4	54.3	81.3	63.9	27.2	29.0

¹ This is the balance of shipments from independent U.S. suppliers to Ford's Canadian plants and shipments from independent Canadian suppliers to Ford's U.S. plants.

Question 2. On page 108 of the Hearings before the Finance Committee in 1965 is a table showing earnings and dividend distributions of the Canadian subsidiaries of G.M., Ford and Chrysler for certain years. Please furnish similar data for subsequent years.

Answer. Shown in the table are Ford of Canada, Ltd. profit and dividend data as published in its annual reports. Please note that Ford of Canada financial statements are consolidated, and therefore include the results of its overseas subsidiaries.

FORD OF CANADA, LTD., PROFIT DATA (1962-67)

(In millions Canadian dollars)

	1962	1963	1964	1965	1966	1967
Profit after tax:						
Domestic Canada.....	\$18.3	\$15.0	\$8.5	\$8.2	\$8.8	\$13.1
Overseas.....	15.9	9.4	(1.1)	9.2	8.0	18.5
Total.....	34.2	24.4	7.4	15.4	16.8	31.6
Earnings per share.....	20.60	14.71	4.43	9.26	10.12	19.04
Dividends paid (per share).....	7.50	5.00	5.00	5.00	5.00	5.00

Rationalization of plants and products, made possible by the United States-Canada Automotive Products Agreement, contributed toward improved profits in domestic Canada in 1967. Nevertheless, profits from Canadian operations in 1967 remained below 1962-63 levels, although unit wholesale sales of cars and trucks in Canada were 201,900 in 1967 as compared with only 144,100 in 1962 and 169,400 in 1963.

Question 3. Mr. O'Keefe stated, "Totally apart from the Agreement, the Canadian Government continues to persist in seeking higher Canadian content than the current requirements." What form does this pressure take with respect to your Company? Have you reported this to our State Department? Have you agreed, or do you intend to agree, to any additional undertakings with respect to Canadian content? Have representatives of your Canadian subsidiaries held any conversations, formal or informal with Canadian officials along this line? Are there any verbal understandings?

Answer. The Canadian Government, during the last six months, has held discussions with Ford of Canada management regarding the Company's experience under the Agreement and the outlook for the future. No agreements, written or oral, have been made to increase the current content requirements or otherwise to modify the existing arrangements. We have indicated to representatives of the U.S. State and Commerce Departments that such discussions are taking place. As indicated in Mr. Markley's testimony, we at Ford are fundamentally opposed to the concept of any further Letters of Undertaking from the Canadian vehicle manufacturers to the Canadian Government.

Question 4. Contracts must have been let to suppliers some time ago for 1969 models. What formula for Canadian content are you using for the 1969 model? What percentage of Canadian content did your 1968 production (and Canadian sales) average?

Answer. The formula being used for 1969 models is the same as was used for 1968, i.e., production-sales ratio, achieving of base year in-vehicle content, 60/50% of growth in the market, and maintaining additional Canadian value added amounting to C\$74.2 million.

The 1969 content objectives are spelled out in detail below:

A. The ratio of the sales value of vehicles assembled in Canada to vehicles sold in Canada is to be at least as high as the corresponding ratio during the 12 months ended July 31, 1964 (the base year).

B. The Canadian content objective equals the sum of:

1. The aggregate dollar value of Canadian content in vehicles assembled in Canada achieved in the base year.
2. Sixty percent of the increase in the cost of cars sold between 1960 and 1964 (the objective for trucks is 50%).
3. Additional Canadian value added amounting to \$69 million (C\$74.2 million) as was achieved in 1968.

We shall submit at a later date information on the percentage of Canadian content that is projected to be achieved in 1968.*

Question 5. Has the Agreement worked out about as your Company expected?

Answer. In the Company's view, the Agreement has worked out well. The Agreement's effects on balance of trade, employment, vendor sourcing and the Company's production patterns have been about as predicted in 1966.

The provisions of the Agreement offered the Company the opportunity to realign its U.S. and Canadian manufacturing and assembly operations. Ford is converting its Canadian facilities from low-volume production of virtually its full range of product lines to high-volume production of a segment of its product lines. As a result, the Company now has an integrated North American manufacturing and assembly system with a high degree of interdependence throughout.

With regard to the balance of trade effects, the Company has continued to achieve a sizable surplus on its trade with Canada. We expect to achieve a surplus for the 1968 model year that is well within the range projected in our testimony in 1965.

Question 6. Have you at all times met all requirements imposed on you by the Government of Canada? Have you had to pay duty on any automobiles sold in Canada during the life of the Agreement? Are all requirements now being met?

Answer. The Company, to its best knowledge and belief, has met all requirements imposed by the Canadian Government. In order to meet the high market demand in 1965 for the Company's products (including products not produced in Canada), it was necessary to import about 2,900 cars in excess of the number permitted duty-free entry under the U.S.-Canadian Automotive Products Agreement. (Of these, 2,858 were Mustangs.) Except for these cars, no duties have been paid by Ford of Canada on vehicles brought into Canada during the last three years.

*See p. 95.

It is anticipated that all requirements will be met for the 1968 model year.
Question 7. Has the Agreement had any effect on your competitive position either in Canada or in the United States vis-a-vis foreign type automobiles? Have the activities of companies manufacturing European or Japanese type automobiles in Canada increased during the years of the Agreement?

Answer. As a result of the realignment of the Company's U.S. and Canadian manufacturing and assembly system, we believe our competitive position, vis-a-vis foreign type automobiles, has been strengthened, particularly in Canada. Because the advantages of economies of scale can now be achieved in Canada as well as in the U.S., Ford of Canada is better able to meet foreign competition. Thus, for example, the narrowing of the U.S.-Canada price gap has improved the price position of Ford Canada products relative to foreign-made automobiles.

Question 8. Mr. Welch has testified that insofar as General Motors is concerned the Canadian Auto Agreement has not significantly affected, one way or another GM's work force in either the United States or Canada during the period of the Agreement. What effect has the Agreement had on your company's work force (including the work force of Canadian subsidiaries of your company) both in the United States and in Canada? On the labor force of your principal suppliers?

Answer. The effect of the Agreement, per se, on Ford's work force in the U.S. has been minor and temporary—as described in Mr. Markley's statement. One group of 150 Ford U.S. employees were certified as eligible for adjustment assistance under the APTA provisions. Overall, employment has increased in both countries, with Ford U.S. adding 20 jobs for every Canadian job that was added. Although we have no specific data on the effects of APTA on the labor forces of our independent U.S. or Canadian suppliers, the testimony presented at the July 19 hearing indicates that, on an industry basis, the cases of employment disruption have indeed been few, even though, in both countries, especially-liberal adjustment assistance provisions have been available to workers whose jobs may have been adversely affected.

Questions 9 and 10. Because these questions involve information on Ford's suppliers, we are researching our files and plan to answer these questions at a later date.

FORD MOTOR Co.,
 Washington, D.C., August 12, 1968.

Mr. TOM VAIL,
 Chief Counsel, U.S. Senate Committee on Finance, Washington, D.C.

DEAR MR. VAIL: The enclosed will complete Ford Motor Company's responses to the question on the Canadian Automobile Agreement that you forwarded to me on July 23.

Sincerely,

RODNEY W. MARKLEY, JR.,
 Vice President, Washington Staff.

Enclosure.

Question 4. What percentage of Canadian content did your 1968 production (and Canadian sales) average?

Answer. It is projected for the 1968 model year that the total Canadian content will equal 54% of the total cost of vehicles produced in Canada.

Question 9. Furnish the names of those of your independent suppliers who have transferred to, relocated in, or opened or expanded productive facilities in Canada during the period of the Agreement, if such information is available to you. Give the volume of business that your Company (including Canadian subsidiaries) had with each such supplier for the following years: 1963, 1964, 1965, 1966, 1967, 1968 (to date). In addition to the above, furnish the names of those of your independent suppliers who have announced to you plans to transfer, relocate or open or expand productive facilities in Canada but have not yet done so. As to this latter group, give the volume of business that your Company (including Canadian subsidiaries of your Company) had with each such supplier for the following years: 1963, 1964, 1965, 1966, 1967, 1968 (to date).

Answer. The names of Ford's independent suppliers who have transferred to, relocated in, or opened or expanded productive facilities in Canada during the period of the Agreement and Ford's purchases from these suppliers' Canadian operations are shown on the attachment.*

No independent suppliers have announced to us that they plan to transfer, relocate, or open or expand productive facilities in Canada.

Question 10. Furnish the names and locations of each of your independent suppliers in the United States with whom you did business prior to the Agreement but with whom, as a consequence of the Agreement and/or your commitments to the Canadian government you either (1) no longer do business with such supplier, or (2) do significantly less business. (In preparing the listing you may exclude all such suppliers whose annual volume of business with your Company in the calendar year 1964 was less than \$200,000.) Give the volume of sales of these companies to your Company for the following years: 1963, 1964, 1965, 1966, 1967, 1968 (to date).

Answer. While Ford Motor Company sourcing to Canadian suppliers has increased since the Agreement, we are not aware of any U.S. suppliers with whom we no longer do business or do significantly less business as the result of the Agreement or the Company's commitments to the Canadian government.

*See p. 86.

FORD MOTOR COMPANY PURCHASES FROM CANADIAN SUPPLIERS WITH NEW OR EXPANDED FACILITIES 1

(In thousands of U.S. dollars)

Company name and location	Ford-U.S. purchases (model year)					Ford-Canada purchases (calendar year)				
	1964	1965	1966	1967	1968 2	1963	1964	1965	1966	1967
I. Suppliers with new facilities:										
Budd Automotive of Canada Ltd., Kitchener, Ontario.....	0	0	0	0	\$7,442	0	0	0	0	\$4,728
Carter Carburetor of Canada Ltd., Bramalea, Ontario.....	0	0	\$19	\$763	671	0	0	\$641	\$620	85
Cello Products, Preston, Ontario.....	0	\$3	185	475	416	0	0	0	0	0
Eaton Precision Products of Canada Ltd., Wallaceburg, Ontario.....	0	0	47	344	881	0	0	0	1,352	2,544
Eaton Spring Division, Chatham, Ontario.....	0	0	0	686	1,830	0	0	0	0	7
North American Plastics Ltd., Wallaceburg, Ontario.....	0	0	3,216	3,105	3,538	0	0	0	0	57
II. Suppliers with expanded facilities:										
Canadian Timken Ltd., St. Thomas, Ontario.....	0	631	583	245	77	\$1,388	\$1,710	1,760	2,035	1,832
Allen Industries of Canada Ltd., Hamilton, Ontario.....	0	34	1,871	1,325	2,684	0	0	1,760	3,888	5,969
Bendix Eclipse of Canada Ltd., Windsor, Ontario.....	0	0	507	2,502	2,995	1,485	2,299	3,608	2,559	1,051
Bundy Tubing Co. of Canada Ltd., Bramalea, Ontario.....	0	0	0	0	645	0	0	73	411	475
Canadian Filters Ltd., Chatham, Ontario.....	\$1,296	1,636	1,882	2,372	2,392	406	576	626	818	746
Collins & Aikman Ltd., Montreal, Quebec.....	0	0	0	636	915	6	43	163	475	620
Eaton Automotive of Canada Ltd., London, Ontario.....	100	113	0	201	304	4,360	4,903	8,212	9,760	11,104
Essex Wire Corp., St. Thomas, Ontario.....	1,781	1,757	4,035	8,039	8,711	2,516	3,178	4,228	4,663	4,484
Gabriel of Canada Ltd., Toronto, Ontario.....	0	0	0	2,245	2,501	0	400	1,074	1,743	1,404
General Spring Products Ltd., Kitchener, Ontario.....	35	525	401	127	4,097	2,282	3,428	3,593	6,233	4,633
Goodyear Tire & Rubber of Canada, New Toronto, Ontario.....	0	0	19	1,787	2,551	3,436	3,557	3,540	6,019	7,275
Hayes Dana Ltd., Thorold, Ontario.....	0	0	0	0	0	2,493	2,837	4,128	6,247	4,564
Hendrickson Manufacturing Co., Stratford, Ontario.....	0	6	283	909	427	0	0	0	83	0
Kelsey Hayes Canada, Ltd., Woodstock, Ontario.....	0	185	4,680	9,451	8,496	504	493	753	2,402	1,642
Mansfield Denman General Ltd., Welland, Ontario.....	0	7	347	525	670	359	442	427	599	721
Olsonite Company Ltd., Windsor, Ontario.....	0	0	90	355	626	0	0	9	232	172
Ontario Steel Products, Chatham, Ontario.....	811	3,220	3,778	4,785	8,855	7,400	6,539	6,938	7,678	7,020
Thompson Products Co., Ltd., St. Katherine's, Ontario.....	0	0	0	1,820	2,513	972	1,758	2,028	2,263	3,990
Trim Trends Canda Ltd., Ajax, Ontario.....	3	172	426	615	1,426	563	574	199	280	567
Kranlinator Filters Ltd., Preston, Ontario.....	0	0	685	791	678	543	922	959	729	813
Uniroyal Ltd., Kitchener, Ontario.....	0	0	0	1,009	778	601	675	781	757	3,003

1 Data shown are purchases from Canadian subsidiaries of U.S. companies that have established new or expanded facilities since the introduction of the United States-Canadian Automotive Trade Agreement.

2 Estimated, based on actual first 9 months of model year.

GENERAL MOTORS CORP.,
GENERAL MOTORS BUILDING,
Detroit, Mich., August 14, 1968.

Mr. TOM VAIL,
Chief Counsel, Committee on Finance,
U.S. Senate, Washington, D.O.

DEAR MR. VAIL: We are enclosing for the information of the Senate Finance Committee a copy of a letter which was written by Edwin H. Walker, president and general manager of General Motors of Canada, Ltd., to the Honorable Jean-Luc Pepin, Minister of Industry, Trade and Commerce of Canada, in connection with the Automotive Trade Agreement.

Subsequent to my appearance before the Committee July 19 to present a current report by General Motors on the Agreement, the Canadian Government requested General Motors of Canada, Ltd., to submit a statement covering its progress to date and its current evaluation of the Agreement.

In view of the questions that you sent to us following the July 19 hearing, we are suggesting that you consider the attached letter by Mr. Walker as a supplement to the answer we submitted to Question 3 by Senators Gore and Hartke.* We will appreciate your advising Senators Gore and Hartke and other members of the Committee of this suggestion, with the further suggestion of making Mr. Walker's letter a part of the record of our submissions to the Committee in connection with this hearing.

Sincerely yours,

H. W. WELCH, *General Assistant Comptroller.*

GENERAL MOTORS OF CANADA, LTD.,
Oshawa, Ontario, August 14, 1968.

The Honourable JEAN-LUC PEPIN,
Minister of Industry, Trade and Commerce,
Ottawa, Ontario.

DEAR MR. MINISTER: We welcomed the opportunity to meet with you and your associates on Thursday, July 25, 1968 to discuss the Canadian-United States Automotive Trade Agreement. During this meeting you requested that we express to you our current evaluation of the Agreement.

The principal objective of the Agreement is the maintenance and expansion of the market for automotive products through specialization and large scale production—thus benefiting the two countries and the purchasers of automotive vehicles. In our letter to your Department on January 13, 1965 we stated that we subscribed to this objective and re-confirm at this time that we are still of this opinion. In that letter we stated at the outset our dependence upon the expectation; "that the program may be expected to continue for a considerable period of time."

We believe that the experience of the past three years demonstrates that the industry working under the Agreement has been able to move importantly towards rationalization of production of vehicles and components, increased productivity and higher employment. Although we will narrowly miss achieving Canadian Value Added this year, due to extended work stoppages—General Motors of Canada has essentially met the objectives outlined in our letter of January 13, 1965.

This program required substantial additional expenditures and re-alignment of production by General Motors of Canada, Limited, its associated companies, and its suppliers. An assembly plant in Ste. Therese and a trim plant in Windsor, both started during the remission plan period, were put into production after the Agreement became effective and currently output from these plants is used for both countries. The Ste. Therese plant's hourly production capacity has been increased by almost 40% since the start of operations, and plans have been approved to increase production capacity there by the fall of 1969 to nearly double the capacity rate that prevailed in the fall of 1966. This continued expansion of capacity at Ste. Therese has been undertaken to accomplish more effectively the goals of the Agreement.

In addition to these new plants, the car and truck assembly operations at Oshawa have been expanded and re-arranged to provide facilities for production

*Page 84 of this hearing.

to provide economies of scale through integration and rationalization. While fewer models are currently produced in Canada, the rate and total unit volume of production is now more comparable to that attained in the General Motors assembly plants in the United States.

In addition to expansion of our assembly capacity in Canada we have rationalized our component lines and increased capacity of our Oshawa and Windsor manufacturing facilities. Substantial capacity increases and rationalization have also taken place at McKinnon Industries subsidiary facilities in St. Catharines, and similar rationalization programs have been instituted at McKinnon's Windsor plant and the Frigidaire plant at Scarborough. Our Canadian vendors also have integrated their operations, improved their facilities, lengthened their production runs and benefited from higher levels of production.

While the first three years of operation under the Trade Agreement resulted in substantive progress toward the original objectives, much has yet to be accomplished. In a major undertaking of this nature requiring recruiting and re-training of large numbers of employees and re-allocation of facilities, production capacity and products between Canada and the United States, three years is a very short period of time. This is particularly true of the automobile industry in which plant investments are substantial and product and manufacturing plans must be finalized several years in advance in order to meet new model introduction dates.

Also during this period the industry has been required to operate under certain conditions which appear contrary to the basic objectives of the Agreement such as duties and sales taxes on plant, construction material, equipment, tooling and shipping containers. These impediments to investment in Canada and other conditions unfavourable to the free operation of the Trade Agreement have been discussed with you and are covered by the Motor Vehicle Manufacturers' Association letter of June 22, 1967 to Mr. Drury (copy attached).

As previously stated, General Motors of Canada, Limited needs more time—perhaps two or three years—to consolidate its program of rationalization and permit the full benefits to be realized.

Assuming reasonable conditions for industrial operations we are confident that as far as General Motors of Canada, Limited is concerned Canada will continue to share in the expected growth of the market on a fair and equitable basis, particularly if the restrictions impeding investment in Canada are removed.

We believe in view of the above that in its present form the Canadian-United States Trade Agreement is a workable plan that is accomplishing its objectives and, subject to the changes suggested, should be continued.

Sincerely,

E. H. WALKER,
President and General Manager.

