countries, duty remission programs, foreign trade zones, subsidies and potential overcapacity.

The problems of overcapacity and the challenge of new producers are caused by forces that were not contemplated 22 years ago and that the Auto Pact was not designed to address. The Auto Pact is not responsible for the tensions between Canada and the U.S. on automotive trade. Rather, the tensions come largely from our respective actions in trying to attract offshore investment. These automotive trade issues needed to be discussed.

On October 3, the two governments agreed to leave the Auto Pact intact. In order to provide for improved conditions of trade in automotive products, however, they agreed to a number of provisions germane to the auto industry. They agreed to eliminate all tariffs on automotive products within 10 years. This will mean that offshore producers who have invested in Canada and the United States will be able to rationalize their production patterns and source parts from all over North America. Canadian parts manufacturers will thus enjoy greater access to the U.S. market.

They further agreed that all vehicles traded under the Free Trade Agreement will be subject to a special rule of origin. Under the Auto Pact, qualified producers, as long as they maintain their minimum production levels, can import vehicles and parts duty-free into Canada from anywhere in the world. Fifty percent of the direct production costs of any vehicle traded under the Free Trade Agreement, however, will have to be incurred in Canada or the United States to qualify for duty-free treatment. Under the current rule governing exports to the U.S. under the Auto Pact, overhead and other indirect costs are included in the requirement that 50% of the invoice price be incurred in Canada or the U.S. The new rule is the equivalent of a 70% content requirement on the old basis. To meet this test, assemblers will have to source more parts in North America, giving Canadian parts manufacturers increased opportunities.

Finally, they agreed to limit the duty-free entry privileges of the Auto Pact to the current participants. The Big Three will, therefore, be able to continue to benefit from their privileges under the Auto Pact to bring in vehicles and parts duty-free from all over the world as long as they continue to meet the Auto Pact production safeguards. They currently save $300 million annually from this provision.