

Automotive Agreement

First, the creation of a broad market for automotive parts where the full benefits of specialization and large-scale production can be achieved. Second, 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. Third, the development of conditions in which market forces may operate effectively to attain the most economic pattern of investment of production and trade.

It is recognized that it would be necessary to take into account the institutional barriers to trade, arising out of the corporate structure of the industries, as well as formal governmental barriers, if Canadian industry were to be able to participate effectively in the United States market. In recognition of the differences in size, strength and degree of development of the automotive industry in Canada and United States, conditions were established for Canadian manufacturers to ensure that Canada would derive real and reciprocal benefits on a fair and equitable basis. The conditions are as follows: first, for each class of vehicle, for example, cars, pickups or buses, the ratio of Canadian vehicle production to vehicle sales in Canada achieved by a manufacturer during each model year, expressed in net sales value, must be at least 75 per cent or the percentage achieved in the 1964 model year, whichever was the highest. Second, the Canadian content, with value added that is, in vehicles produced in Canada by a manufacturer—with each vehicle type again taken individually—must be no less than the absolute dollar amount achieved in the 1964 model year.

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In addition to these conditions within the agreement, two additional commitments to the Canadian government were incorporated within separate letters of undertaking. These two commitments are, first, to increase value added in Canada in each model year by an amount equal to 60 per cent of the growth in the value of car sales in Canada, and 50 per cent in the case of commercial vehicles; and second, over and above the value added floor stipulated in the intergovernmental agreement and the value added growth arising from increased vehicle sales in Canada covered by the letters of undertaking, there should be a supplementary increase in the Canadian value added of \$260 million, or U.S. \$241 million, by the manufacturers, in the aggregate, by the end of the 1968 model year.

The United States limited the duty-free entry of automotive imports to Canada, putting the United States in breach of its most favoured nation undertaking in GATT. The United States accordingly sought and obtained a waiver from its GATT partners. The agreement is thus bilateral on the United States side, but on the Canadian side, qualified Canadian manufacturers can import automotive products duty free from any country whose exports are entitled to most favoured nation tariff treatment.

The integration and rationalization of the Canadian and United States automotive industries resulting from the implementation of the agreement has been to the mutual advantage of both countries. In Canada, efficiency gains were realized from economics of scale that were made possible from the reductions in the number of model lines. The degree to which the Canadian industry has become competitive with its U.S. counterpart is evident from the production trend. Output increased from 671,000 units in 1964 to a peak of 1.82 million in 1978, an increase of 171 per cent. Employment in the same period increased by about 711 per cent from 69,000 to 118,000. It is estimated employment increased by some 30,000 in the related services and supplies industries.

Total automotive trade between Canada and the United States was \$22.6 billion in 1980 compared to \$796 million in 1964. Over the same period, Canadian exports of automotive products increased from about \$100 million to \$10 billion. The Canadian trade position changed from a \$711 million deficit in 1965 to a surplus of \$198 million in 1971 and has since then reversed, with a deficit of \$2.0 billion in 1980.

The industry in North America is in the throes of a major readjustment. The factors which have led to this readjustment are many but the most obvious are rising gasoline prices and actual gasoline shortages in the U.S. Consumers are now demanding the smaller, lighter weight, more fuel-efficient vehicles. The industry was unable to revamp its entire manufacturing operations in step with consumer demand. As a result, offshore producers, principally the Japanese, were able to establish a very substantial foothold in the market.

I would not wish to leave the impression that these are the only significant events. Price competition, perceived differences in quality and performance, have all contributed to the situation, as well as major technological change involving emission control, improved engine performance and weight reduction. The cost to the North American industry to introduce these new technologies and convert existing facilities to the new generation of vehicles has been estimated to be in excess of \$80 billion. This, coming at a time of high inflation and with high interest rates, has added to the burdens faced by the industry. What now appears to be emerging is an industry that is in the process of modernization, that is becoming more efficient and producing competitive vehicles.

This tremendous upheaval in the industry has upset existing sourcing patterns; not all of the established suppliers have been able to adjust to the change and some have gone out of business, but new suppliers are emerging.

I have outlined this background because without it it is difficult to understand why Canada has not adopted a different posture with respect to the automotive agreement. This government initiated consultation with the Americans under the agreement in April, 1980. The new U.S. administration is committed to continuing consultation on automotive matters.

There has been a primary concern within these consultations relating to the need for a return to health of the North American industry as a whole, and of course there were consultations on a broad range of specific issues including