

After reviewing the results of this somewhat limited programme, the present Government decided to extend the plan and to allow Canadian motor-vehicle producers to import any type of part they needed and, indeed, to import motor vehicles free of duty in step with whatever increase they achieved in their exports to the United States or to other countries. We felt that this would provide a stronger incentive to our producers to specialize, that they would become more efficient and that, in consequence, they would be able to compete more effectively on world markets.

The new plan was only beginning to take effect when one of the automotive-parts manufacturers on your side of the border cried "foul". This producer lodged a complaint with the United States Bureau of Customs alleging that our incentive plan was simply a device to subsidize exports. He asked the United States Government to apply countervailing duties, that is to say additional duties equal to the subsidy which he claimed was being given to Canadian producers by the Canadian Government.

It was obvious that this put the whole programme into jeopardy. Whatever the outcome of that complaint, it would be months before the application for countervailing duties could be finally disposed of. Meanwhile no United States importer could run the risk of having to pay retroactively the duty that might be assessed.

It seemed to us that this situation had arisen because of a real lack of understanding of what we were trying to do. The root of the Canadian problem - and this is true of other industries as well as the automotive industry - is that we have a very small domestic market. So long as production in Canada is geared exclusively to supplying only this market, our producers are not in a position to achieve the full economies of scale. As a result, their unit costs are higher, they are not able to compete effectively with foreign producers, and the Canadian consumer often has to pay higher prices.

It is not simply that Canadian plants are often smaller than plants in the United States. Even when our plants are the same size as yours, they tend to produce a much greater range of products. In the automobile industry one of our largest assembly plants customarily produced as many as 600 different models of passenger-car and truck. Even the most complex assembly operation in the United States would not attempt to produce more than 250 models, and most United States assembly plants would concentrate on a much smaller range of products. This holds true for parts production as well.

The obvious solution for a country in this position is to specialize - to limit itself to doing the things it can do best and produce a selected range of vehicles and parts for both the home market and for export. The remaining types of parts and vehicles needed to provide consumers with a range of choice can then be imported.