and U.S. car prices. In other words, I exclude taxes because obviously they are different here from what they are in the United States. A comparison which would not take into account this fact would not be useful.

I shall also be using Canadian dollars in comparing Canadian and United States prices, converting the latter into Canadian dollar terms to permit a direct comparison. As the exchange rate of our dollar averaged 92½ per cent of the U.S. dollar during most of the period since 1965, I shall first compare prices using this rate both at the beginning and the end of the period. I shall then make a second comparison using the present rate of exchange, which for practical purposes I have taken at par. The use of these uniform exchange rates avoids the distortions which would result from converting each year's prices at varying rates of exchange.

The following is the first comparison: In 1965, when the agreement was signed, the average weighted price differential between Canadian and U.S. cars was over 8 per cent at, I repeat, the 92.5 per cent rate. As the benefits of the agreement gradually bore fruit, the average price gap grew narrower until by 1970 the differential was down to 3.5 per cent. By 1971 it would have been 3 per cent, and for the current model year about 2 per cent, had the value of the Canadian dollar remained unchanged.

• (2020)

In May, 1970, the Canadian dollar was allowed to float, and since then has risen to the present near-parity. If I adopt the present rate of exchange in calculating the price differential since the signing of the automotive agreement, in 1965 the average Canadian car would have cost nearly 16 per cent more than its United States counterpart. By 1970 this gap would have been about 11 per cent, and for the current model year the differential is just over 8 per cent at, I repeat, the manufacturer's level.

This price gap naturally varies from company to company and from model to model. Some cars are priced lower in Canada than in the United States. Most are more expensive, by various amounts. In general, the smaller, more popular cars are sold at a lower price differential than the larger, more luxurious models. One of the new sub-compacts, in the version which is the largest seller, is on average $61 less expensive in Canada, at the dealer level, tax free, than it is south of the border on the same basis.

The exchange rate which I have used to trace these prices does not have a direct bearing on the Canadian dollar price actually paid by the Canadian consumer for his car. Canadian car prices, in Canadian dollars, have risen over the period of the agreement only half as fast as those in the United States in U.S. dollars. But the Canadian citizen, Mr. Speaker, still buys cars at a higher price than the U.S. citizen. How come? The question, then—and it has been repeatedly posed in this House—is whether a differential of this size, or indeed of any size, is warranted under a continuation of virtually tariff-free trade in vehicles and parts with the United States. This is the question with which my department has been constantly engaged, and one which both I and my predecessor, the now President of the Treasury Board (Mr. Drury), have discussed with the vehicle producers on many occasions.

[Mr. Pepin.]

Then, Mr. Speaker, what is the explanation? The producers have identified a number of elements where costs in Canada are higher than in the United States. These factors include cost of transportation of the cars to the dealers, sales taxes on materials, for example, construction materials, and other supplies, higher average costs of capital when they are borrowing on the Canadian market, greater administrative and overhead expenses related to Canada's separate and smaller economy, and the added burden of our colder winters. The companies are not able to identify, and neither are we, in cost accounting terms—I mean in any precise numerical terms—what these costs would amount to in terms that would be acceptable to economists, both ours and probably theirs.

While economists and accountants can, and do, recognize these and other cost factors in their studies of Canadian automotive production, it has never been possible to determine accurately just what these amount to in any particular Canadian operation and, even less, in the production of any given Canadian car. One can conclude, however, that there are in fact some continuing higher cost factors in this country which bear on the production of cars and their delivery to the dealers. It may be suggested that we buy a roomful of computers, hire a thousand economists and a few thousand accountants in order to get to the bottom of this problem, but some people say that even they could not decipher the complexity of the situation.

At the same time, Mr. Speaker, our studies of this industry indicate that there are certain elements which offset some of the higher costs which the producers have identified. It is mentioned sometimes, for example, that the cost of steel is lower in Canada than in the United States. It is also mentioned that labour stability is an advantage in determining the costs of production in Canada. But these lower cost elements seem to be just as difficult to measure precisely for particular factories or vehicle models as are the higher cost factors. I hope that I am at least giving an indication of the tremendous complexity of establishing proportions and comparisons in this particular industry.

Mr. Broadbent: You left out profit margins.

Mr. Pepin: Mr. Speaker, the knowledge we have is that profits in Canada, generally speaking, are lower than they are in the United States for companies in this particular sector of the economy. But, again, this is terribly difficult to establish; often you have global or international figures for the operations of these companies and from these you have to try to extricate the Canadian aspect. Again, the exercise is a most difficult one.

Whatever the past situation may have been, the budget provisions which the government introduced on Monday have already substantially altered the cost and profit equation which has been such an important element in our review of this matter. The availability of the new provisions for accelerated depreciation of machinery and equipment used in manufacturing, and the lower corporate tax rates which will bear on this industry, have removed any doubt about the ability of the industry to continue to reduce the price differential. The 1973 models, when they come out in the fall, may well cost as much as current models because they will have to incorporate in