

## Canada-U.S. Automotive Trade

Total Canada-U.S. automotive trade in 1979 reached an all-time high of Cdn \$25.9 billion, or 29.2% of all bilateral merchandise trade with the U.S. The Canadian deficit in automotive trade with the U.S. also reached a record level of \$3.1 billion (\$2.65 billion for bilateral trade in automotive products covered by the Auto Pact). Preliminary data for 1980 shows an improvement of almost \$1 billion in Canada's bilateral trade deficit in automotive products. Reflecting the drop in automotive sales in both the U.S. and Canada, however, the total two-way automotive trade has also slipped by \$3.4 billion from the 1979 level.

A predominant proportion of cross-border automotive trade moves under the provisions of the Canada-U.S. Automotive Products Trade Agreement which was negotiated between the two governments in 1964. The Auto Pact sets out the terms and conditions under which a measure of reciprocal duty-free access is provided with the objective of creating a broader market for automotive products within which the full benefits of specialization and large-scale production can be achieved. The U.S., for its part, grants general duty-free entry to Canadian-produced motor vehicles and original equipment auto parts providing they contain at least 50% North American content. The Canadian implementation of the Auto Pact differs from that of the U.S. in several respects, chiefly: 1) duty-free importation of motor vehicles and parts is restricted to "designated motor vehicle producers"; 2) duty-free importation has been extended on a most-favoured-nation basis (i.e. qualified motor vehicle producers may import eligible articles under the Auto Pact duty-free from any British Preferential or most-favoured-nation country).

In order to qualify as a "designated Canadian motor vehicle producer" under the Auto Pact certain basic conditions must be met. These include the maintenance, on an annual basis, of a minimum level of vehicle production in Canada relative to vehicle sales in the Canadian market (i.e. the "production to sales ratio") and achievement of a minimum annual level of Canadian Value-Added (CVA) from automotive-related activity.

Although it is generally acknowledged that the Auto Pact has provided mutual benefits to Canada and the U.S. in terms of an overall increase in production, employment and trade, the Canadian performance under the Pact in certain areas has been a cause for concern. With regard to auto parts and components, for instance, Canada has had a substantial trade deficit with the United States