RESPONSE:

- TRADE BETWEEN CANADA AND THE UNITED STATES IN USED AUTOMOBILES IS GOVERNED BY THE FTA. SO THAT BY 1994, THERE WILL BE NO IMPORT RESTRICTIONS ON VEHICLES TRADED FROM EITHER SIDE.

- THE MEXICAN MARKET AT PRESENT IS RESTRICTIVE TO MOST OF USED VEHICLES AND PARTICULARLY TO USED PASSENGER CARS. AT THE PRESENT STAGE OF NEGOTIATIONS, IT IS TOO EARLY TO DETERMINE THE FINAL OUTCOME OF THE NEGOTIATIONS CONCERNING USED VEHICLE MARKET.

AUTOMOTIVE SECTOR : QUESTION #8

What effect will the Corporate Average Fuel Economy (CAFE) regulations of the us environmental protection agency has upon Canada with Mexico considered as "domestic"?

Background:

General-

The CAFE refers to the requirements established by the US Environmental Protection Agency (EPA) whereby vehicle manufacturers and importers are required to meet specific miles-per-gallon levels on sales as a weighted average on a fleet wide basis. There are two divisions 1) domestic (75% North American Value Added - NAVA) and 2) non-domestic. Average whole sale prices are used to determine total cost of the vehicles on a model line basis. Mexican content is currently used to bring the fleet domestic content below 75% and therefore to be lumped with imported high mileage vehicles instead of lower mileage domestic vehicles. The advantages is that this permits NAVA on a basis for Autopact to be met while avoiding the high penalty cost associated with failure to meet minimum mileage standards. The result is a change in sourcing ratios within a specific range of the 25% between present Autopact regulations and CAFE rules.

US Interests-

From the US government perspective it is important to patch up the loop hole. EPA would include Mexico as domestic with respect to value added. Ford is exploiting the loop hole by sourcing extensively in Mexico to reduce domestic value. The nomenclature of Mexico as domestic will not necessarily plug the loop hole as the same result can be achieved by sourcing from different areas.