

THE CANADIAN AUTOMOTIVE INDUSTRY UNDER THE AUTOMOTIVE AGREEMENT

To position the Automotive Agreement and the industry in Canada in the context of discussions of a comprehensive trade arrangement with the United States it would seem appropriate to examine briefly the terms of the Agreement and the perceptions of its objectives and provisions.

The Agreement provides essentially for free trade between the two countries in automobiles, trucks, buses and original equipment parts. Excluded from the Agreement is trade in aftermarket parts and accessories, tires and tubes, batteries and used vehicles. No attempt has been made to assess the effect of including these additional items in any comprehensive trade arrangement. Duty free entry of the vehicles and parts covered by the Agreement are subject to a number of conditions, particularly relating to importation into Canada. There are five conditions applying to entry into Canada three are incorporated in the Agreement and two are contained in undertakings by the motor vehicle companies in Letters of Commitment to the Canadian Government.

The Agreement stipulates as a first condition that only a Canadian manufacturer of automobiles, trucks or buses may import products duty free provided the manufacturer in the year of importation maintained a production to sales ratio equal to that achieved in the base year and Canadian value added equal to that obtained in the base year. Canada implemented the Automotive Agreement on a