

*Canada—U.S. Automotive Agreement*

**Mr. Drury:** Both, independent manufacturers and automobile manufacturers themselves and their subsidiaries. I am glad to say that this expansion has taken place over the whole spectrum and is not confined to one particular area. As to the contention that payment of sales tax and duties at a time when expansion is being urged upon them is unfair, I feel this is probably a question for the judgment of the Minister of Finance (Mr. Sharp).

As he explained in his budget with regard to the prospective rate of expansion in Canada at the present juncture, the object of his budget in popular terms was to remove some pressure on the accelerator, namely, to slow down the rate of expansion. It has not been evident to me so far that as a consequence of the non-removal of the sales tax it will not be possible for the Canadian automotive industry to meet contracts, both with respect to quantity and in relation to other aspects of the agreement. Whether they will be able to do this on as profitable terms as they would have been able to do had the sales tax been removed is, of course, another question. There is no doubt about it that the manufacturer who is relieved of tax payments has more money available for retained earnings than if he had to pay the tax.

I do not know, and I do not have reason to know, that the proposal of the Minister of Finance to remove progressively over the next two years the sales tax on production machinery will make it impossible for both motor car manufacturers and parts manufacturers to achieve the targets toward which the agreement has been aimed. In so far as duties are concerned on imported machinery, which appears to be one of the main apprehensions, it has been stated that most of the manufacturers who have to import this production machinery because it is not manufactured in Canada are placed at a serious competitive disadvantage in relation to United States competitors by reason of having to pay a duty of 22.5 per cent on their production machinery. The fact of the matter is, I am advised, that in the case of production machinery not manufactured in Canada, which is imported by the automotive industry for the manufacture of automobiles, there is a tariff drawback of 99 per cent of the duty. This means that for all practical purposes there is no imposition of this 22.5 per cent duty on machinery required for expansion.

[Mr. Nesbitt.]

**Mr. Nesbitt:** Would the minister permit a question in this regard? Will the minister agree that in many cases, with regard to machinery used for production purposes of a class or kind made in Canada, on which there would be a duty of 22.5 per cent if it were imported from the United States, under present economic conditions in Canada there may be a waiting period of a year or a year and a half before this machinery can be obtained in Canada, so in order to meet production schedules it becomes necessary to import it from either the United States or the United Kingdom?

**Mr. Drury:** I agree that this is the kind of choice that faces every entrepreneur. He has to make his choice on the balance of economic advantage. Perhaps in this regard I should say that the problem of levying duty on machinery of a class or kind which could be manufactured in Canada, but which in actual fact cannot be manufactured within what I might call a practical time, is receiving consideration by the government now. I suggest that in so far as machinery not made in Canada is concerned, in practical terms there is no duty levied.

**Mr. Nesbitt:** I am very glad to hear that.

● (2:30 p.m.)

**Mr. Drury:** One other question which was raised was car prices. I think in my opening remarks I did indicate that the only intelligent comparison that can be made of car prices or car costs would be at the manufacturers' level. When I say "intelligent comparison", I am talking in relation to this agreement. The agreement does not purport to influence or affect the rates of provincial or state taxation, nor the general scheme and structure of distribution in effect with respect to automobiles and automobile products in the two countries. This agreement is directed to the manufacturing operation and consequently manufacturing costs. In measuring its usefulness one should look, therefore, at these costs at the manufacturing level. If changes are indeed desirable at that more distant level in the distributive process, then I suggest that is another question altogether. It is quite clear that at the manufacturing level there has been a narrowing, even in our first year of operation of the agreement, of the differential in costs between the cost of manufacture in the United States and the cost of manufacture in Canada. I think that hon. members should perhaps look slightly askance at some of the figures given in