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Please substitute the following introduction:

A NEW LOOK AT THE CANADA-U.S.
AUTOMOTIVE AGREEMENT

Excerpts from a speech by the Honorable Jean-Luc Pepin,
Minister of Industry, Trade and Commerce, to the
Canadian Automotive Parts Manufacturers' Association
in Toronto, October 23, 1969.

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CANADA

STATEMENTS AND SPEECHES

INFORMATION DIVISION

DEPARTMENT OF EXTERNAL AFFAIRS

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No. 69/17

A NEW LOOK AT THE CANADA-U.S.

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...As you are aware, we shall again very shortly be discussing the Canada-U.S. Automotive Agreement with the United States Government. Our neighbors seem to think that Canada has done a little too well out of the Agreement. We in Canada take the view that we have still a long way to go before we have - as indicated in the second objective of the Agreement - a fair and equitable share of the total North American market for automotive products. It will be important to try to bridge this difference of approach during the forthcoming discussions.

Tonight I should like mainly to review what has been achieved and better define the important job which still lies ahead.

"In the beginning" (1964) it was found that the automotive industry, even though it was already one of the most important segments of our economy, appeared to be well below the achievement of its potential sales capabilities. It was considered essential that a plan be devised which would enable the industry to expand its output to a level more in keeping with the market requirements.

As you all know, this concern led the Government to enter into "the" Agreement with the United States in an attempt to eliminate the barriers to trade in automotive products between our two countries....

The Agreement is now working well ... and, while all the objectives have not yet been fully realized, we have made good progress towards them.

What did the Canadian automotive industry look like in 1964?

The industry was competing with difficulty in its own domestic market, supplying only about half of it: Vehicle production was 671,000 units. Average monthly employment in the industry was 69,000 workers. The annual exports in vehicles and automotive parts from Canada amounted to a mere \$99 million. Our total automotive trade with the U.S. was only \$818 million, and 86 per cent of this was imports.

And, closer to home, the factory value of parts shipments was only \$627 million.

Where do we stand now?

The industry as a whole has benefited substantially, through the immediate expansion of production which followed the Agreement and the movement which has taken place towards the combination of the markets of the two countries. You, the auto-parts manufacturers, have been very much a part of this success.

I have been informed that, of the many representations which were made to Ottawa in opposition to this Agreement, one small group of parts manufacturers was most outspoken. "This trade agreement has caused our doom," the group said. "We cannot compete and we are unquestionably faced with closing-up shop." It is interesting to note that many of these very manufacturers have since greatly expanded their production and have built new factories.

Another success story relates to the manufacture of automotive frames. Prior to 1964, no frames were made in Canada at all. Today there are two manufacturers. Their production represents, annually, a multi-million-dollar activity, and is currently undergoing a major expansion.

The Canadian automotive industry's overall position is reflected in press comments. I quote:

"Vehicle production rises 76 per cent over 1964 to 1.1 million units."

"Average monthly employment has increased by more than 15,000 workers, with a similar increase in related industries."

"Canadian automotive exports have risen from \$99 million in 1964 to \$2.5 billion in 1968 ... an increase of 2,400 per cent."

"Total automotive trade with the U.S. has risen from \$818 million to \$5.3 billion between 1964 and 1968."

And, closer to home:

"Annual factory value of parts shipments rise 71 per cent (from 1964 level of \$627 million) to \$1 billion."

These are impressive achievements, and I do not wish for a moment to minimize them ... however, we must not permit any complacency to creep back into the industry.

Future

Impressive as the results have been to date, there is a big job yet to be done ... there are rewards available to you through the full achievement of the objectives of the Agreement by way of a still more competitive industry.

As you know, the Economic Council, in its recent review, has predicted for 1975 a vastly expanding Canadian economy, including a much greater market for consumer products. This should further increase the demands that will be placed upon the automobile and parts industry.

What are the needs of the future?

The Economic Council has given us a preview of what could be the picture in 1975: A gross national product of at least \$100 billion -- up from the 1967 level of approximately \$65 billion. Exports should attain about \$25 billion, possibly rising at an average annual rate of over 10 per cent. Personal transportation equipment could be the third most important consumer expenditure item (having surpassed clothing and footwear). Consumer expenditure in this sector will have risen from the 1967 level of \$2.6 billion to almost \$5 billion.

What's in this for you?

Are you making appropriate plans to get the maximum share of this greatly expanding domestic market? Are you making serious efforts to obtain a more equitable share of the total North American market?

We, industry and government, have a responsibility to create the conditions that will facilitate the achievement of these goals. A good economic environment can be fostered by government action, but employers and employees must do the work of industrial growth.

Problems of the Future

Looking ahead, what are the practical problems and hindrances that your group and the entire automotive industry must overcome? Let's mention three: (1) Investment and growth financing; (2) management; and (3) marketing.

Investment and Growth Financing

The Canadian automotive industry has invested in the order of \$1 billion between 1964 and 1968. It took that much to bring you where you are today.

If I freely interpret the Economic Council's hopes for 1975, I venture to say that it will take at least another \$1 billion in new investment by 1975, just to enable you to stand still! That's right - \$1 billion just to maintain the portion of the North American market which you now have.

In order to achieve a more equitable share of the market, therefore, the Canadian automotive industry investment must be greater -- considerably greater!

For example, just to have the value of Canadian production match our consumption, a further investment in excess of \$2 billion could be required.

The present need for expansion and modernization is not unlike the situation the industry faced back in 1964 (departing, of course, from a higher level). The need for greater product specialization and plant improvement which was emphasized by the Agreement will most certainly continue into 1975, if not permanently. I'm sure that you fully appreciate this and that you will take the necessary steps to meet this challenge as you have done in the past.

To date, the new investment required has largely been met by the industry itself and I am hopeful this trend will continue. In order to complement the industry's efforts in this regard, the Adjustment Assistance Board was formed to provide financial assistance and tariff remission on production machinery to help all parts manufacturers to compete in the new market.

As you are all well aware, this Board has been under the capable direction of Dr. V.W. Bladen, whose close association and understanding of the automotive industry is well known. I hardly need to mention his outstanding contribution to both government and industry down through the years.

Since 1965, the Adjustment Assistance Board has granted 73 loans totalling about \$60 million. Its tariff-remission activity has granted remissions of approximately \$5 million on automotive production machinery and equipment. A further 24 remission applications are still under consideration.

We feel this is proof positive of the Government's efforts to complement those of the industry itself, proof also of the Government's concern in assisting manufacturers to be as competitive as possible by obtaining the most modern equipment available.

As you may be aware, Government programs, including the activities of the Adjustment Assistance Board, are now under review in Ottawa to assess their current status and future relevance. In this regard, the industry's views and recommendations expressed through the Association and its executive have been most welcome and are receiving close consideration....

One more word on marketing. There are many rumors regarding suggestions for a broadening of the Auto Agreement to include a wider range of products. In this regard, we recognize your industry's concern about certain of these suggestions and your views have been helpful in the Government's continuing assessment of this matter.

I wish to assure you that the Government will carefully weigh all the ramifications of any proposed changes or additions to the Auto Agreement -- always keeping in mind the significant role which has been and will continue to be played by the parts manufacturing industry in the success of the Agreement and in the economy of the country. I presume this is judgment and thoroughness -- and, remember, politicians too have to be good managers! ...