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Speech by the Hon. Paul Martin,  
Secretary of State for External Affairs,  
at a dinner of the Canadian Industrial  
Management Association, London Branch,  
Queen's Park, London, Ontario, on  
November 16, 1967, at 7:00 p.m.

"CANADA-UNITED STATES AUTOMOTIVE AGREEMENT"

It is always a pleasure for me to come to London, in my home area of Western Ontario. I have had a long association with this city and I have many good friends here.

In my capacity as Secretary of State for External Affairs, I have become more and more aware of the implications of the scientific and technological changes taking place in our modern world. This rapid and accelerating pace of change has led to growing interdependence, not only between neighbouring countries such as Canada and the United States, but among all countries and continents. Increasingly, people throughout the world are coming to realize that nations ought not to be rivals in their efforts to grow and prosper, but must necessarily be partners. This represents a gradual change from conceptions that prevailed only a few years ago.

The foundations for this approach to international economic co-operation were established at the end of the Second World War. It has been given institutional form in the World Bank and the International Monetary Fund, the General Agreement on Tariffs and Trade, the Economic and Social Council of the United Nations, and the Organization for Economic Co-operation and Development.

Nowhere in the world is economic co-operation between two countries closer or more varied than between Canada and the United States. Although this may sometimes give rise to special problems, I think both our countries are greatly enriched by the co-operative arrangements which prevail between us.

This co-operation covers many fields. To mention only a few:

1. Water resources, as exemplified by the Columbia River Treaty;
2. The utilization of energy, including electricity, petroleum and natural gas;
3. The special arrangements for the automotive industry.

As the automotive industries are an important part of the economy of this region, I would like to review the progress which has been achieved under the Canada-United States Automotive Trade Agreement.

Like many secondary industries in Canada, the automotive industries traditionally have faced the problems of manufacturing for the Canadian market. No matter how carefully the Canadian vehicle and parts producers managed their businesses, no matter how diligently they took advantage of the latest technologies, they faced higher costs than those of their competitors outside Canada.

Some of the factors have been the higher costs associated with short run assembly and manufacturing operations. This would include the cost of writing off tooling and facilities over much

smaller production volumes. The problems of short runs have also been compounded by the proliferation of automobile style and variety. The duty payable on imported parts of course has also been a factor.

In the period before the Auto Agreement, as a consequence of these factors, prices were appreciably higher in Canada than in the United States. The motor vehicle industry was also becoming increasingly more dependent upon imported components because the limited volume of Canadian production made it uneconomic to produce many parts in Canada. Consequently, imports of vehicles and parts into Canada were increasing rapidly while, because of foreign tariffs and institutional barriers to trade, exports were relatively small. Employment in the industry was prevented from expanding to levels which might be reasonably expected if these obstacles were removed. To overcome some of these problems, the Automotive Program was negotiated with the United States and introduced in January of 1965.

The Canada-United States Automotive Agreement is one of the most important and imaginative trading arrangements ever made between our two countries. Under its provisions, Canadian-made motor vehicles and original equipment parts enter the United States free of duty. On the Canadian side, vehicles and original equipment parts may be imported duty free by Canadian vehicle manufacturers who meet a number of specific production requirements. Duty free entry of auto parts is also available to parts makers if they are for use in Canadian vehicle production.

This is a unique development in our trade relations with the United States. It is an arrangement which recognizes that the differences in size, financial strength and the relative development of our industries require special provisions to ensure that Canada, in fact as well as in theory, derives equivalent and reciprocal benefits from trade agreements between our two countries. Moreover, this arrangement recognizes that it is necessary to do away with institutional barriers to trade as well as formal governmental barriers, if Canadian industries are to be able to participate effectively in the United States market.

Already substantial benefits have been achieved under this program. To date, the industry has announced plans for expansion of 169 existing plants. In addition, it has announced the establishment of 95 new plants in Canada, making a total of 264 plant expansions or new plants. Many of these new and enlarged facilities are being designed to service not only the Canadian market but the United States and other markets as well. Expansions are also taking place in the materials, supplying and service industries which rely upon the automotive industry as one of their major customers.

Production during 1966 totalled over 900,000 motor vehicles, a 34% increase over 1964. The value of shipments of parts and accessories for 1966 amounted to \$800 million, or approximately \$200 million more than 1964. Employment over the same period increased by 23%.

Exports of automotive products have increased substantially under the program. In 1966, exports exceeded \$1 billion, an increase of 437%, compared with a 95% increase in imports. While there continues to be a trade deficit in respect to this sector, in the absence of the automotive program, Canada's adverse trade balance would certainly have been greater. At the same time, there has been a significant narrowing of the differential between the United States and Canadian prices for automobiles at the factory wholesale level.

Despite the progress which has been made so far, it cannot be expected that deeply-rooted customs and practices of doing business in this industry can be changed in a relatively short time. Purchasing agents in the United States have for many years been in the habit of obtaining practically all their needs from the large United States parts industry. Until the introduction of the Automotive Program they hardly ever considered parts producers in Canada as a source of supply. Consequently, during this period of transition, problems will inevitably emerge which will have to be dealt with to ensure that the purposes of the program are achieved and further progress is made in reducing institutional barriers which still exist.

Many companies will have to make substantial investments to re-equip and expand their facilities if they are to be fully competitive on a North American basis. In this regard, the Government has established an adjustment assistance fund which is

administered by a Board under the Chairmanship of Professor Bladen of the University of Toronto. The Board is authorized to make loans to enable Canadian automotive parts manufacturers to adapt their production facilities to the new and expanded market conditions in an orderly manner. To date, 40 loans amounting to approximately \$32 million have been made.

The Government has also made provision for transitional financial assistance to workers laid off as a result of adjustments caused by the agreement. As I have already mentioned, however, there have been significant increases in employment and the market for skilled labour of this type remains buoyant; and as a result a relatively small number have applied for benefits.

The Auto Program has brought major new facilities to the London area such as the Ford Plant at Talbotville and others. These are providing and will provide new jobs for many people in the region. These developments speak forcefully for the success of the Program.

The Auto Pact has also had an effect on highway safety programs because an expanding and interdependent market leads us to the realization that automobile safety standards in the North American continent are very much a matter of continental concern. If certain safety features are deemed necessary in the United States, the same reasoning naturally has some relevance to the balance of the North American market, namely Canada.

The Federal Government, along with private organizations and provincial governments, has been concerned with automobile and highway safety for some time. Although the provinces have legislative jurisdiction in many areas of this problem, within the past month, the Federal Government has taken an initiative in deciding to set up a public advisory board on highway safety composed of representatives from the provinces, the industry, safety organizations and other interested groups. In addition a committee has been established in the Department of Transport to assume responsibility for the co-ordination of all the Federal Government activities in this field, for example, from setting government purchasing specifications to research on skidding at the National Research Council.

This committee will also sort out the responsibilities of various levels of government in respect of automobiles and highway safety.

The Federal Government feels that now is the time to make a concerted effort insofar as it is constitutionally able, to reduce the human and material carnage which springs from our affluence, our desire for personal mobility and the transport needs of our economic system. In our growing world of automobiles, it will never be cheaper or easier than it is now to attack this problem.

The Canada-United States Automotive Agreement is designed to provide a rationalization of the automotive industry on a continental basis. The agreement is particularly well adapted to



the particular circumstances of this industry, so that it should not be concluded that this is the type of agreement which will prove equally suitable for other industrial sectors. Canada recognizes and values its important bi-lateral relationship with the United States and the possible extensions which might occur, while believing that its destiny lies in the world-at-large.

It is natural then that Canada responds positively to multi-lateral relations and to the institutions set up to organize them. It is more within this context that we can accept the interdependence which the modern world demands. Canadians realize that they can not survive in isolation but at the same time Canada is not willing to give up the economic, social and political independence which we possess and mean to keep.

Canada is the country of the future. Ours is a remarkable record of over-all growth, comparing very favourably with most of the great industrial nations including the United States. This accomplishment is a measure of the underlying strength and potential of our economy, and provides valid grounds for confidence in our ability to achieve and maintain a high and steady long-run rate of growth. We have the opportunity to build a country which can play a much greater role on the world stage, but we can only do this if we expand our horizons and seize at the opportunities and challenges which confront us.