

GENERAL AGREEMENT ON TARIFFS AND TRADE

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REPORT OF THE WORKING PARTY ON CANADA/UNITED STATES AGREEMENT ON AUTOMOTIVE PRODUCTS

I. Introduction

1. The terms of reference of the Working Party were "to examine the Canada/United States Agreement concerning automotive products and any aspects of that Agreement relevant to the General Agreement, and report to the CONTRACTING PARTIES". The Working Party met from 16 to 24 March 1965 under the Chairmanship of Mr. N.V. Skak-Nielsen (Denmark). It had before it the text of the Agreement contained in L/2339.

2. The Working Party heard introductory statements by the representatives of Canada and the United States. The texts of these statements are annexed to this report.

II. Elucidation of the Agreement

3. Questions were raised as to the relationship between Article I of the Agreement (which sets as an objective inter alia the liberalization of automotive trade between the United States and Canada) and the other Articles of the Agreement, which did not seem to provide for complete liberalization. The representatives of Canada and the United States explained that Article I set out long-term objectives towards the fulfilment of which the remaining Articles were designed to contribute. The Agreement in Article IV(c) provided for a comprehensive review of the progress made towards achieving the objectives set forth in Article I during which review the governments "shall consider such further steps as may be necessary or desirable for the full achievement of these objectives".

4. The Working Party went on to discuss Article II of the Agreement. Paragraph (a) of this Article provides that the Government of Canada shall accord duty-free treatment to imports of automotive products of the United States, a detailed description of which is contained in Annex A of the Agreement. The representative of Canada explained that the Order in Council giving effect to the Agreement, to which he had referred in his introductory remarks (copies of which were distributed to members of the Working Party), extended duty-free treatment on the same terms to these products from any country entitled to the British Preferential Tariff or the Most-Favoured-Nation Tariff.

5. As regards paragraph (b) of Article II, which provides, inter alia, that the Government of the United States shall seek enactment of legislation authorizing duty-free treatment of imports of automotive products of Canada, which are described in Annex B, the representative of the United States explained that draft legislation was being prepared for submission to the current session of the Congress and, when available, the text of this draft legislation would be communicated to contracting parties.
6. The representatives of Canada and the United States agreed to circulate statements setting out the tariff items covered by the Agreement together with the rates on automotive products applied before action had been taken under the Agreement.
7. Members of the Working Party sought clarification on certain points connected with Annexes A and B to the Agreement. The representatives of Canada and the United States explained that these Annexes were intended to cover the same items although the tariffs of their two countries were based on different nomenclatures.
8. Members of the Working Party noted that the Agreement covered parts when imported for use as original equipment but not replacement parts, and asked whether the customs authorities could make the necessary distinction. The representatives of the two Governments said in reply that they did not anticipate any practical difficulty in this respect because the two categories of parts could be distinguished by details of invoicing, packaging, certification, etc.
9. Turning to an examination of Annex A to the Agreement members of the Working Party noted that, while any importer could import parts duty free so long as they were for use as original equipment, duty-free treatment was accorded to vehicles only when these were imported by a "manufacturer" of the relevant class of vehicles. In reply to questions, the representative of Canada said that the definition of a "manufacturer" for the purposes of the Agreement, required a producer to meet three criteria. In the case of automobiles, a manufacturer must have produced automobiles in Canada in the base period. He must undertake to maintain the ratio between the net sales value of automobiles produced in Canada (whether for the domestic market or for export) to the net sales value of automobiles sold in Canada (whether domestically produced or imported) at a level no less than that in the base period and in any case not less than seventy-five to 100. Finally, he must also ensure that the Canadian value added of his production of automobiles in any model year is no less than the Canadian value added in his production of automobiles in the base period.
10. In answer to questions as to the automobile manufacturers at present producing in Canada who could qualify to import automobiles duty free, the representative of Canada said that nearly all the 560,000 automobiles produced in 1964 were made by subsidiaries of United States companies. One European manufacturer had an assembly plant in Canada and two other European companies had made arrangements, before the signature of the Agreement, to have their automobiles manufactured in Canada under licence and were continuing with their plans. Members of the Working Party enquired

as to the criteria that would be applied in the case of new producers wishing to qualify as "manufacturers" within the meaning of the Agreement. The representative of Canada emphasized that the Agreement placed no impediment in the way of companies wishing to start production in Canada. It was not the intention of his Government to discriminate either against or in favour of new producers of any nationality. The criteria which would be applied in the case of a new producer wishing to participate in the programme could not be identical with the criteria for existing producers (because there would be no production during the base period) but the terms of admission would have to be consistent with these criteria. Paragraph 3 of Annex A, which lays down that "the Government of Canada may designate a manufacturer, not falling within the categories set out above, as entitled to the benefit of duty-free treatment in respect of the goods described in this Annex", illustrated the open-ended character of the provisions of the Agreement.

11. In reply to questions on Annex B of the Agreement, which described the products which are to be allowed duty-free entry into the United States when imported from Canada, the representative of the United States said that the purpose of restricting this treatment to goods containing a specified percentage of Canadian and United States value was to prevent third countries from exporting duty free to the United States simply by shipping goods via Canada. Attention was drawn to the fact there was a changing percentage of aggregate value referred to in Annex B and that this applied only to the Articles covered by sub-paragraph (a) of paragraph 3 of that Annex.

12. Members of the Working Party noted that Article III of the Agreement provided that commitments made in the Agreement "shall not preclude action by either government consistent with its obligations under Part II of the GATT". The parties to the Agreement explained that they had wished to reserve their right to take certain action vis-à-vis each other in accordance with the Articles of the GATT referred to and that the formulation in Article III had appeared the simplest way of doing this. This Article was not intended to affect the rights and obligations of third countries under the General Agreement.

13. Members of the Working Party noted that Article V of the Agreement which lays down that "access to the Canadian and United States markets provided for in this Agreement may by agreement be accorded on similar terms to other countries" does not require that similar access "be accorded immediately and unconditionally to like products originating in or destined for the territories of all other contracting parties" in the terms of Article I of the GATT. They however observed that, as the Government of Canada had unilaterally extended duty-free treatment for the products described in Annex A to all contracting parties, Article V would, in practice, have significance only with respect to the extension of access to the United States. The representative of the United States confirmed that so far as it was concerned, this Article was intended to permit negotiations with other countries.

III. Questions relating to aspects of the Agreement relevant to the General Agreement

14. The Working Party first examined the Provisions of the Agreement relating to the United States.

15. The United States representative said he accepted that, the implementation of the Agreement by Congress in accordance with Annex B would lead to a technical inconsistency with the most-favoured-nation clause of Article I. In his view however this inconsistency would affect the letter and not the spirit of the Article. So far as parts were concerned, free entry would be limited to original equipment parts and it was unlikely that non-North American suppliers would participate in any substantial way in this market. Original equipment parts were produced either by subsidiaries of the car manufacturing firms, or at any rate by firms which had come to be closely associated over the years with the manufacturers as suppliers of the necessary parts. In addition, given the economies of car production, the scheduling of the supply of the parts in relation to the timing of the production of the cars themselves was crucial, and it was for this reason that it was usually not practicable for parts for use in manufacture (as opposed to replacement parts, which could be stocked) to be supplied by overseas producers. The representative of the United States acknowledged that there could be some minor exceptions to this general rule but where they existed they were based on some special cost advantage notwithstanding the existing United States duty. Nothing in the Agreement would change this situation.

16. As regards the vehicles themselves, it was true that vehicles imported from sources other than Canada would continue to pay the customs duty (although this was already a low duty of 6.5 per cent and was likely to be even lower after the conclusion of the present round of trade negotiations). But the vehicle imported from overseas was not really the same product as the North American vehicle; it supplied a special segment of the market. Competition between the two types was only marginal and, in so far as it existed, was based on such factors as style, size of vehicle, and prestige. Price competition of a kind that could be affected by a nominal tariff was negligible. More importantly implementation of the Agreement would not result in lower prices for North American type cars in the United States market; price relationships with cars imported from overseas would therefore not be affected and thus the competitive situation would, in any case, remain unchanged.

17. It was the general consensus of the Working Party that, if the United States implemented the Agreement in the manner proposed, United States action would be clearly inconsistent with Article I and it would be necessary for the United States Government to seek a waiver from its GATT obligations.

18. Several members of the Working Party said that they could not accept that the inconsistency with Article I was only with the letter and not with the spirit of the Article.

19. Some members of the Working Party pointed out that they did have appreciable exports of original equipment parts to the United States and considered that their competitive position in relation to imports of such parts from Canada might be affected. They also thought that there might be an increasing overlap in the size of cars produced in North America and those imported from third countries.

20. The Working Party went on to examine the relationship between Canada's obligations under the Agreement and the General Agreement. Members of the Working Party noted that in his introductory remarks the representative of Canada had stressed that his Government was implementing the Agreement on a most-favoured-nation basis and was extending to all contracting parties the same tariff benefits, on the same terms, as it had undertaken to grant the United States under the Agreement. The Canadian Government had no doubt that its implementation of the Agreement was consistent with both the spirit and letter of Article I of the GATT.

21. One member of the Working Party referred to the possibility of like products imported by different classes of importers being charged different rates of duty and enquired whether this would not result in discrimination between sources of supply contrary to Article I of the General Agreement. The representative of Canada said that paragraph 1 of Article I simply provided that "any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties". His Government had no doubt that it was fulfilling this requirement.

22. The question was asked whether, in the opinion of the Canadian delegation, the Canadian part of the Agreement was compatible with Articles III:5, III:7 and XVII:1(a) since a Canadian manufacturer could only, generally speaking, import vehicles duty free under the Agreement to an extent directly related to his domestic production; in addition, because of the structure of the Canadian industry, it was not at all certain that a manufacturer who had the privilege of importing vehicles duty free would in fact import from outside its parent corporation and its subsidiaries.

23. In reply, the Canadian delegate said that there was no doubt in his mind that the Agreement was wholly consistent with the provisions of these Articles of the General Agreement. He stated, moreover, that under the Agreement manufacturers were free to choose their sources of imports in the light of commercial consideration and that it could be assumed that vehicles imported duty free by them would in fact come from a variety of sources. He also referred to his statement in paragraph 10 and, in reply to further questions, that he was not aware of any agreements between firms which limited this freedom of choice.

24. The representative of Canada, in considering the implications of the Agreement for imports from third countries, said the Canadian market for such imported vehicles was largely independent of the market for North American-type vehicles and that it responded to different factors. Moreover, although the Agreement would lead to considerable adjustments in the production pattern of the Canadian industry and to an increase in two-way trade with the United States, the extent of the structural changes required in the Canadian industry was unlikely to result in significant changes in the pricing of Canadian vehicles for the time being.

25. Another member of the Working Party representing a third country producing motor vehicles pointed out that, while the Agreement was not expected in the short run to lead to a change in the price of vehicles on the Canadian market, by the time that the rationalization of Canadian production had been achieved, an effect on prices would be felt and that this would make it more difficult for third countries to sell vehicles in Canada.

26. The representative of Canada said in reply that if prices were reduced this would simply be a result of increased efficiency, not in itself an undesirable objective, but this could not be expected to happen in the immediately foreseeable future. It was difficult to look further ahead. The market for foreign cars depended on a variety of factors, of which price was only one. In addition there were questions of style, service, resale price and many other elements, including the possibility that as standards of living in Canada improved and the number of two-car families increased, the market for small cars might become even stronger.

27. In a discussion of the trade effects of the Agreement taken as a whole, the members of the Working Party representing third countries which produced motor vehicles said it could not be assumed that the Agreement would have no effects, or only insignificant effects, on the trade of other contracting parties. One European company had already started to produce vehicles in Canada before the signature of the Agreement, and, as stated in paragraph 9, two more firms had also arranged to have their vehicles manufactured under licence. The reason to establish production facilities in Canada had presumably been the Canadian tariff on vehicles; the Agreement would now add the further incentive of duty-free entry for these products into the much larger United States market. There would probably be an increase in production of small cars in Canada which would make it more difficult for third countries to export to North America. The Agreement would, therefore, lead to a de facto differentiation between third country producers which had production facilities in Canada and those which had not; the latter might feel obliged to establish themselves also in Canada, an investment that might otherwise not have been necessary.

28. The parties to the Agreement pointed out that the only plants thus far established in North America by overseas producers have been in Canada. These were intended primarily to serve the Canadian market. The present low United States duty, which promises to be even lower, has not provided sufficient incentive for the establishment of foreign plants in the United States. After careful study of the economics of the automotive industry, including relative production costs, market potential for particular types of vehicles, transportation costs and required capital investment, it was their judgment that the conditions created by the Agreement would not materially change the present situation.

29. One member of the Working Party stated that in his view the type of arrangement involved was a logical one between adjacent countries and recalled that his Government had long held that flexibility should be provided for in Article I of the General Agreement to permit such arrangements. In this he was supported by other members of the Working Party who noted however, that contiguity between the parties should not be the only criterion in such arrangements since traditional trade relations arising from several factors including historical incidents of development over the years do bring about economic ties as strong, if not stronger, than those arising from contiguity.

30. Several members of the Working Party enquired whether the signature by the United States and Canada of the Agreement, establishing as it did a new preferential arrangement, indicated a change in the positions of these Governments with regard to the granting of new preferences, especially preferences in favour of less-developed countries; indeed, hitherto, the two countries concerned had seemed, from the point of view of principles, to be opposed to any departure from the provisions of Article I of the General Agreement. Without subscribing to the accuracy of this statement, the representatives of the United States and Canada stated that their respective positions on the question were on record in other organs of the CONTRACTING PARTIES. The Working Party noted that the question of new preferences in favour of less-developed countries was under consideration in another organ of the CONTRACTING PARTIES and it was agreed that it should not be pursued further in the present Working Party.

31. The Working Party welcomed the fact that the Agreement had been placed before the CONTRACTING PARTIES for examination before it entered definitively into effect. Some members however regretted that the United States had not as yet applied for a waiver. The representative of the United States explained that in the view of his delegation it would be premature to make such an application. The legislation necessary to implement the Agreement had not yet been presented to the Congress and it would be some time before action on such legislation would be completed. The question was raised as to what would be the position of the CONTRACTING PARTIES if faced with a request for a waiver when the legislation had been passed, the fact being that by that stage the United States Government would be obliged to implement the Agreement whatever decision is taken on the request for a waiver. Members of the Working Party pointed out that if the United States abolished its duties on

automotive products on a most-favoured-nation basis, the question of a waiver would not arise at all; if, as a second possibility, Congress empowered the United States administration to negotiate the elimination of duties on motor vehicles and motor vehicle parts during the current round of trade negotiations, the United States would only require a temporary waiver. Otherwise a waiver would be required for an indefinite period. The hope was expressed that the United States would take advantage of one of these possibilities. The representative of the United States indicated that a decision regarding a waiver application would be made during the course of the legislative proceedings and careful consideration would be given to the views expressed in the Working Party.

ANNEX A

OPENING STATEMENT MADE BY THE REPRESENTATIVE
OF THE UNITED STATES

The United States-Canadian Automotive Products Trade Agreement signed by President Johnson and Prime Minister Pearson on 16 January 1965 represents a solution to a number of serious problems which were faced by the automotive industries of the United States and Canada. These problems arose from very special characteristics, unique to the automotive industry of North America. The solution arrived at is at the same time constructive and beneficial to the partner countries, but not harmful to the trade interests of third countries.

I.

The automotive industry of the United States and Canada naturally forms, and in reality is, a single great North American industry. Virtually all of the producing firms in the one country have a corporate relationship to firms in the other country. This is true both of vehicle manufacturers and of major parts producers. The dominant financial interest in those firms is American.

The manufacturing facilities on both sides of the border produce identical items, using fully interchangeable components. The location of the industry in the two countries is, moreover, characterized by geographic proximity. The bulk of production is concentrated in Michigan, Ohio, Indiana, Western Pennsylvania, Western New York and Southern Ontario. This region forms a natural area for single industry location, enjoying a somewhat common environment in respect of raw materials, power, labour force and transportation facilities.

Consumer tastes and preferences in the two countries are virtually identical. In both countries, the consumer demands a wide variety of body styles and sizes, a wide range of accessories and frequent model changes. To meet this consumer demand, the industry in Canada produces almost the full range of the thirty separate lines of passenger cars with nearly 350 models which are produced in the United States.

The North American automotive industry is one in which costs are critically related to the volume of production. Given the frequency of model changes, the tooling and design expenses for many components must be spread over a very large number of units if the final cost is to be within tolerable limits. For many basic components, the lowest efficient production run is 100,000 units per year. In some cases, the minimum level of production is in excess of 500,000 units per year. The United States market, of course, has been large enough to take advantage of this situation and to maximize the economies of scale. This has not been true in Canada where production runs have been short and costs relatively high, even though the industry there on the whole operates in modern and otherwise efficient plants.

Out of these circumstances arose a series of disturbing problems which threatened the stability of the industry on both sides of the border. Higher cost conditions in the northern segment of the industry resulted in higher-priced products to the Canadian consumer thus limiting the size of the market.

It had for some time been apparent to officials of the United States and Canadian Governments that at the root of these problems was a basic important factor - that a single great industry was divided arbitrarily and uneconomically by tariffs and other barriers to trade. If these barriers could be removed in a way which was mutually satisfactory to the two Governments, the industry could integrate its production operations on the most efficient basis, avoiding the necessity for maintaining uneconomic duplicative facilities.

This in short is the background and economic rationale of the Agreement concluded between our two Governments.

II.

Under the Agreement of 16 January the two Governments seek the achievement at the earliest practicable date of a broader market for automotive products within which the full benefits of specialization and large-scale production can be achieved. They seek also the liberalization of automotive trade in respect of tariff barriers and other factors tending to impede it, so that the industry of both countries may participate on a fair and equitable basis in the expanding total market in North America. In pursuit of these goals, the two Governments have agreed to develop conditions in which market forces may operate effectively to attain the most economic pattern of investment, production and trade and to avoid actions which would frustrate achievement of these objectives.

The terms of the Agreement provide that Canada shall accord duty-free treatment for vehicles and for original parts imported by bona fide Canadian vehicle manufacturers. For its part, the United States Government has undertaken to seek from the Congress authority to provide duty-free importation into the United States of vehicles and original parts manufactured in Canada.

The Agreement provides for consultations at the request of either Government; and a comprehensive review will be made of progress toward the objectives of the Agreement no later than 1 January 1968.

Finally, the two parties may, by agreement, extend the access to their markets provided for under the Agreement to other countries on similar terms.

I will not attempt now to summarize the Annexes to the Agreement which have already been circulated to the contracting parties. The Annexes are technical and somewhat complex but I am prepared, as I assume is the Canadian representative, to provide any necessary clarification.

III.

In concluding the Agreement of 16 January, my Government has been mindful of the principles of the General Agreement and of the trade interests of other countries. Various alternative approaches were considered and the approach finally adopted, in the view of my Government, represents a solution that will do no harm to the trade interests of third countries.

I have already described the economic rationale of the Agreement. The Agreement is intended to facilitate the integration of the North American industry and to permit efficient production on the basis of specialization. This will result in an increased level of trade across the border. But, in our view the purposes of this Agreement are different from those historically associated with preferential arrangements. This Agreement is not intended to have nor will it have, trade diversion effects.

I would like to explain specifically why we believe the Agreement will not harm third country trade interests. In the first place, the Agreement will not affect United States imports of automotive parts from third countries. The Agreement provides duty-free treatment only for original parts. United States vehicle producers do not to any significant extent import original parts from off-shore sources. This is not surprising, since the requirements of assembly line production demand rather precise scheduling of deliveries. In 1964, the United States imported \$95 million worth of automotive parts of which \$44 million originated in Canada. United States imports of parts from third countries consisted primarily of replacement parts for vehicles imported from those countries. There may be some minor exceptions to this general rule, but where they exist they will be based on some special cost advantage, notwithstanding the existing $8\frac{1}{2}$ per cent United States duty on automotive parts. The Agreement of January will not significantly affect whatever cost advantage may exist in these cases.

Similarly, no trade diversion should be anticipated as regards vehicles. The United States is currently the world's largest importer of vehicles. We have the lowest duties and do not maintain non-tariff barriers on vehicle imports. In 1964 we imported 534,000 motor vehicles valued at more than \$575 million. In

recent years our imports of vehicles have risen as our total market has increased, but the market share in the past three years - that is, the market share of imports - has remained at about 5 per cent.

Imported vehicles have a special niche in the United States market. These vehicles attract segments of consumer demand based on size of vehicle, economy of operation, desire for special types e.g., sports cars, or on the prestige attached to owning a foreign made automobile. These factors will be unaffected by the United States/Canadian Agreement.

More important is the question of price. What may be anticipated from the Agreement is a growing exchange of vehicles between the two countries based on production of fewer models in Canada with longer production runs. The elimination of the duty on vehicles imported from Canada, however, will have no effect on the prices of any vehicles in the United States. Thus, the price relationship with vehicles imported from third countries will remain unchanged. There is, therefore, no basis for anticipating any effect on imports on vehicles from third countries.

Similar arguments can, I believe, be made for the Canadian market but this is something I would leave to the representative of Canada.

IV.

My Government recognizes that the Agreement with Canada, when implemented by United States legislation, expected to be submitted to the Congress shortly, will give rise to a technical inconsistency with Article I of the GATT. We firmly believe however that this inconsistency is more with the letter of the General Agreement than with its spirit.

We are happy that the CONTRACTING PARTIES decided to establish this Working Party in order to enable us to explain in greater detail the unique circumstances that have led my country and Canada to choose this, among alternative courses, as the best means of improving the efficiency and structure of the North American automobile industry. We shall be very much interested in the reactions of the Working Party and will give careful consideration to its views.

ANNEX B

OPENING STATEMENT MADE BY THE
REPRESENTATIVE OF CANADA

My delegation is glad to join with the other members of this Working Party in an examination of the Agreement concerning automotive products concluded on 16 January 1965, by my Government and the Government of the United States. We do so very much in the spirit ascribed to us by the Executive Secretary at the plenary session, that is, in the belief that this Agreement, which is technically somewhat complicated, is of interest to other contracting parties and that it will be useful for us all to have as clear an understanding as possible both of its detail and its broad objectives.

I will begin by saying that while the Automotive Agreement is couched, as is usual in bilateral treaties of this kind, in terms of undertakings entered into by the two parties vis-à-vis each other, the Canadian Government is implementing the Agreement in a non-discriminatory manner. As is stated in L/2339, the Agreement will only come into definitive effect after necessary legislative action is taken, but my Government has, by Order-in-Council PC 1965-99 of 16 January (copies of which are available to you), brought the new free-entry conditions envisaged in the Agreement into force with effect from 18 January in so far as Canada is concerned. You will notice that the first paragraph of the Order-in-Council clearly states that the free rates apply to the goods specified when imported "from any country entitled to the benefit of the British Preferential Tariff or Most-Favoured-Nation Tariff". The coverage of the Order parallels that of Annex "A", which is the Canadian Annex of the Agreement. We thus are extending to each and every contracting party the same tariff benefits, on the same terms, as we have undertaken to grant the United States under the Agreement. My Government has no doubt that its implementation of the Agreement is consistent with both the spirit and letter of Article I of the GATT.

Questions about the Agreement will no doubt occur to members of the Working Party and we will do our best to reply to them. At this stage, it might be most helpful if I simply indicated the Canadian background of the Agreement and the broad objectives it is intended to achieve.

The environment within which the Canadian automotive producer operates is, by virtue of economic, social and geographical factors, essentially North American in scope although he has not, for a variety of reasons, been able to adapt production to the logic of this situation. Among the characteristics of the Canadian market that are relevant, perhaps the most fundamental is that both Canadian production and consumption of automotive products is made up almost wholly of North American type vehicles. This is a quite distinctive product, differentiated by size, horsepower and many other features from vehicles constructed in other parts of the world. Within the general category there is, of course, a considerable range of models and the Canadian consumer has become used to, and expects, a choice between the wide variety of makes and models which are available to the consumer south of the border.

The market for automotive products in Canada is a substantial one. Last year, Canadians bought about 600,000 automobiles and about 100,000 buses and commercial vehicles. Nevertheless, this market rests upon a population base approximately one tenth that of the United States. Considering that the total North American production in 1964 was nearly 10 million units, it is hardly surprising that our market by itself does not permit the economic production of the full range of North American vehicles. In automotive production, considerable advantages derive from economies of scale. One of our problems in Canada is that vehicle producers - and therefore producers of components for these vehicles - have much shorter production runs than in the United States. The consequence is that our unit costs are higher than in the United States with all that this implies in terms of the final cost of the product in Canada.

Another factor of some importance in our situation is that virtually all Canadian companies producing vehicles are subsidiaries of United States automotive companies. We thus have essentially the same companies on the two sides of our common border producing virtually identical models of North American vehicles.

The objective of our Agreement with the United States is to find a constructive and liberal solution to the problems posed by this situation. It is our hope that the reduction of the various barriers on both sides of the border that have impeded the more rational production of automotive vehicles on a North American basis and, in particular, the provision for duty-free entry under the terms stipulated in the Agreement, will enable our manufacturers of vehicles and original equipment parts to concentrate on production of a more limited range of products for a substantially enlarged market. It follows that we anticipate considerable changes in our production patterns in Canada and that we look forward to a large increase in the two-way flow of trade in automotive products between Canada and the United States with beneficial effects upon efficiency and costs of automotive production in Canada and advantages to the industry as a whole.

Canadian imports of non-North American vehicles totalled about 70,000 in 1964 and consisted mainly of smaller and specialized cars imported from European countries. As I have hinted above, the market for such vehicles is, in our opinion, largely independent of the market for North American type automobiles and responds to rather different factors. Thus the competitive position of these vehicles will not be directly affected by the changes flowing from the Canada-United States Agreement, particularly as we anticipate the structural adjustments required in the Canadian industry will not permit significant changes in the pricing of Canadian vehicles for the time being.

In summary the Agreement is designed to meet a need to rationalize production in Canada in the interests of economic efficiency. The solution we have adopted is, we believe, the most constructive one available and is designed both to conform to our obligations under the GATT and to protect the interests of our trading partners in the Canadian market.

