Observations

By: Dennis DesRosiers

"Auto Pact ll"

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February 19th marked the official end of the Auto Pact and frankly it was a non-event. We might shed some tears for Suzuki, Mercedes-Benz, Jaguar, Volvo, Saab and Isuzu buyers who will now have to pay the 6.1 percent duty on their new purchases. However, even this is questionable. Because the market is so competitive in Canada it will be very difficult to pass on the duty to the consumer.

I suspect most of the duty will be absorbed by the OEM's. Moreover, these vehicles represent only 1.8 percent of the Canadian market so the impact will be minimal regardless. All other vehicles produced by the Auto Pact countries are covered by the FTA/NAFTA Agreements so they are not affected at all.

In this Observation I will discuss the historical development of the auto sector in Canada and discuss where we might go from here. Whether we call it Auto Pact II or by any other designation, I believe Canada still needs a strategy-based automotive policy.

There are five distinct eras in the development of Canada's auto sector, all of which can be defined in trade policy terms. The first is the pre-Second World War era. Henry Ford actually began producing vehicles (117 units) in Walkerville, Ontario in 1904.

It was high protective tariffs, which brought the auto industry to Canada. Canadian duties on "gasoline buggies" were 35 percent at this time. But Canada also had reciprocal trade agreements with the other commonwealth countries, which reduced their tariffs to 22.5 percent. By locating in Canada Henry Ford could jump the Canadian tariff and gain a lower tariff access to the rest of the commonwealth. To this day Ford Canada has responsibility for Ford's operations in Australia and New Zealand.

On April 15th, 1926 the Honourable James A. Robb, Minister of Finance, made a significant announcement in the House of Commons: "There is a pronounced sentiment throughout Canada that the automobile industry enjoys more protection than is needed to maintain it on a reasonable profitable basis, and in deference to that sentiment we propose a downward readjustment of automobile, motor truck and motor cycle duties. It is proposed to reduce the duty on automobiles valued at retail at not more than $1,200, and on motor trucks and motor cycles to 20 percent under the general tariff; 17½ percent. under the MFN tariff and 12½ percent under the British preferential tariff. On automobiles valued at more than $1,200 each, the general tariff is reduced to 27½ percent, the MFN tariff to 25 percent and the British preferential to 15 percent. To encourage Canadian industry a drawback to 25 percent would be paid on materials used in the manufacture of the above mentioned motor vehicles, provided that at least 50 percent of the cost of the finished vehicle is produced in Canada."

Auto Tariffs - Effective April 15, 1926

Category	British Preferential	MFN	General
Passenger Autos Valued At No More Than $1,200 Retail and Motor Trucks	12.50%	17.50%	20.00%
Passenger Autos Over $1,200 Retail	15.00%	25.00%	27.00%

Thus the unique device of Canadian content was introduced for the first time. Meeting this Canadian content level also exempted vehicles from a five percent excise tax at the time. "Content" requirements have been a key element of Canada's automotive policy since that time and are still a key element within NAFTA although "Content" under NAFTA is North American not Canadian.

Motor vehicle parts had carried General Tariff rates of 27½, 30 or 35 percent in most instances, and no noticeable downward revision was made on component parts which averaged at least 30 percent duty.

Canadian Light Vehicle Sales by Duty Status

	DUTIABLE* Units	% Change	Market Share	DUTY FREE Units	% Change	Market Share	TOTAL Units	% Change	Auto Pact Third Country Imports	Auto Pact Third Country Imports %
1991	309,062		24.4%	957,451		75.6%	1,266,513		74,621	5.9%
1992	267,506	-13.4%	22.2%	936,897	-2.1%	77.8%	1,204,403	-4.9%	71,894	6.0%
1993	204,330	-23.6%	17.5%	960,347	2.5%	82.5%	1,164,677	-3.3%	48,930	4.2%
1994	150,361	-26.4%	12.3%	1,074,588	11.9%	87.7%	1,224,949	5.2%	28,128	2.3%
1995	115,473	-23.2%	10.2%	1,014,738	-5.6%	89.8%	1,130,211	-7.7%	16,265	1.4%
1996	101,014	-12.5%	8.6%	1,074,610	5.9%	91.4%	1,175,624	4.0%	10,015	0.9%
1997	153,040	51.5%	11.0%	1,234,906	14.9%	89.0%	1,387,946	18.1%	9,472	0.7%
1998	192,440	25.7%	13.8%	1,197,405	-3.0%	86.2%	1,389,845	0.1%	10,401	0.7%
1999	215,942	12.2%	14.4%	1,285,249	7.3%	85.6%	1,501,191	8.0%	27,180	1.8%
2000	243,741	12.9%	15.7%	1,305,798	1.6%	84.3%	1,549,539	3.2%	28,549	1.8%
2000/1999	12.9%			1.6%			3.2%		5.0%	

* Some product was dutiable but became duty free when NAFTA was fully implemented and/or content was achieved, also some dutiable product would have had the duty reduced as a result of various remission orders
Source: DesRosiers Automotive Consultants Inc. using Industry Data

The discrepancy between the rate of duty on finished vehicles and on the parts entering into their production disadvantaged the vehicle producers. To offset some of the discrepancy between the duties on parts and finished vehicles a new Tariff Item Number was introduced. It provided for a duty drawback of 25 percent on component parts if at least 50 percent of the cost of producing the finished vehicle was incurred in Canada. Thus began the era of duty remission programs. Remission programs were part of our automotive policy until they were phased out under NAFTA. Indeed, an aggressive remission program introduced in 1962 and 1963 resulted in the development of the Auto Pact.

These policies worked reasonably well and as early as 1929 Canada was the second largest vehicle producer in the world (262,000 vehicles) with France and the UK third and fourth. The U.S. was number one with over five million units. This shows the disparity between the U.S. and all other countries in the early development of the auto sector.

The next two decades witnessed the introduction of a less enlightened policy approach. During the 1930s and 1940s there were dozens of changes in Canadian auto trade policy resulting in a very complex, highly protectionist and inefficient policy. Most of these policy changes proved to be “desperate” in nature rather than well thought out.

The second era of the auto sector in Canada started post-WWII and lasted through to the introduction of the Auto Pact in 1965. During this time frame Canada maintained high tariffs and a complex array of Canadian content requirements and duty remission programs. But post WWII growth pushed Canadian production to about 500,000 units by 1960 although growth was relatively stagnant in an otherwise booming economy. Because of the high tariffs, vehicle prices in Canada were very high, there were large and growing trade deficits and the parts sector was in serious trouble.

In 1960, the Government established a “Royal Commission on the Automotive Industry” led by Dean Vincent Bladen from the University of Toronto.

The Order-in-Council, P.C. 1960-1047, dated August 2nd, 1960 directed the Commissioner to consider and report upon:

a) the present and prospective competitive position of the Canadian automotive industry, in Canadian and export markets, as compared with automotive industries of other countries;

b) the relations between the companies producing motor vehicles and parts in Canada and parent, subsidiary or affiliated companies in other countries and the effect of such relations upon production in Canada;

c) the special problems and competitive position of the industries in Canada producing parts for motor vehicles, and the effects thereof upon the production of vehicles in Canada;

d) the ability of the Canadian industry to produce and distribute economically the various types of motor vehicles demanded or likely to be demanded by the Canadian consumers; and,

e) measures that could be taken by those in control of the industries producing motor vehicles and parts therefore in Canada, by the labour unions concerned, and by parliament and the Government, to improve the ability of such industries to provide increased employment in the economic production of vehicles for the Canadian market and export markets.

Within the first hour of the first hearing on October 24th, 1960 at the Parliament Buildings in Ottawa, Dean Bladen directed the following question to the first witness, E.H. Walker, President and General manager of General Motors of Canada, Limited; "I wonder if you would be prepared to comment on another proposal which has been made to me – without identifying the source – that we should require a much higher content but, in the process, at the same time, agree that we were not concerned with the content being in the Canadian car; it could be in the American cars. In other words, we are not so concerned to have more parts in a Canadian car; we are concerned to make more parts. We are not so much concerned to make one model of Canadian car as to say that we want to make the same contributions in production to the joint production of the United States and Canada that we make to the purchases of cars. This would mean that we would allow you to import cars free and a wider variety of parts free on condition that your company was buying for use in Canada and the United States an amount equal to your sales."

This statement essentially outlines the fundamental philosophy of the Auto Pact. Bladen did not recommend this in his final report but it was clearly on his mind.

Canadian Light Vehicle Sales - Auto Pact vs. Non-Auto Pact

	Auto Pact	% Change	Market Share	Non Auto Pact	% Change	Market Share	Total All Vehicles	% Change
1991	891,668		70.4%	374,845		29.6%	1,266,513	
1992	860,719	-3.5%	71.5%	343,684	-8.3%	28.5%	1,204,403	-4.9%
1993	869,156	1.0%	72.4%	331,149	-3.6%	27.6%	1,200,305	-0.3%
1994	940,170	8.2%	76.8%	284,598	-14.1%	23.2%	1,224,768	2.0%
1995	879,861	-6.4%	77.8%	250,350	-12.0%	22.2%	1,130,211	-7.7%
1996	907,176	3.1%	77.2%	268,448	7.2%	22.8%	1,175,624	4.0%
1997	1,036,766	14.3%	74.7%	351,180	30.8%	25.3%	1,387,946	18.1%
1998	985,517	-4.9%	70.9%	404,328	15.1%	29.1%	1,389,845	0.1%
1999	1,055,023	7.1%	70.3%	446,168	10.3%	29.7%	1,501,191	8.0%
2000	1,058,983	0.4%	68.3%	490,556	9.9%	31.7%	1,549,539	3.2%
2000/1999	0.4%			9.9%			3.2%	

Non-Auto Pact by Origin of Vehicle

	From Canada*	From U.S./Mexico	From Japan	From Overseas	From Canada*	From U.S./Mexico	From Japan	From Overseas
1991	5,159	60,624	248,934	60,128	1.4%	16.2%	66.4%	16.0%
1992	4,944	71,234	223,610	43,896	1.4%	20.7%	65.1%	12.8%
1993	40,439	86,380	167,823	36,507	12.2%	26.1%	50.7%	11.0%
1994	40,258	93,979	115,172	35,189	14.1%	33.0%	40.5%	12.4%
1995	40,258	94,619	81,191	34,282	16.1%	37.8%	32.4%	13.7%
1996	57,062	110,372	67,125	33,889	21.3%	41.1%	25.0%	12.6%
1997	77,270	120,870	114,717	38,323	22.0%	34.4%	32.7%	10.9%
1998	73,389	138,499	149,117	43,323	18.2%	34.3%	36.9%	10.7%
1999	109,471	120,755	154,073	61,869	24.5%	27.1%	34.5%	13.9%
2000	110,752	136,063	157,619	86,122	22.6%	27.7%	32.1%	17.6%
2000/1999	1.2%	12.7%	2.3%	39.2%				

*Honda & Toyota's from Canada included in U.S. until 1994
Source: DesRosiers Automotive Consultants Inc. using Industry Data

Canadian Light Vehicle Sales by Nameplate

	Total Market	Big Three*	Market Share	Japanese	Market Share	All other	Market Share	Total Import Nameplate**	Market Share
1991	1,266,513	848,309	67.0%	323,647	25.6%	94,557	7.5%	418,204	33.0%
1992	1,204,403	815,512	67.7%	299,059	24.8%	89,832	7.5%	388,891	32.3%
1993	1,164,677	825,220	70.9%	251,755	21.6%	87,702	7.5%	339,457	29.1%
1994	1,224,949	903,579	73.8%	234,376	19.1%	86,994	7.1%	321,370	26.2%
1995	1,130,211	853,241	75.5%	204,037	18.1%	72,933	6.5%	276,970	24.5%
1996	1,175,624	887,382	75.5%	218,230	18.6%	70,012	6.0%	288,242	24.5%
1997	1,387,946	1,015,480	73.2%	297,827	21.5%	74,639	5.4%	372,466	26.8%
1998	1,389,845	965,691	69.5%	332,675	23.9%	91,479	6.6%	424,154	30.5%
1999	1,501,191	1,021,812	68.1%	364,677	24.3%	114,702	7.6%	479,379	31.9%
2000	1,549,539	1,023,955	66.1%	383,173	24.7%	142,411	9.2%	525,584	33.9%
2000/1999	3.2%	0.2%		5.1%		24.2%		9.6%	

* Includes captive imports but excludes Jaguar, Volvo, MB
**Includes import nameplate of the Big Three but excludes captive imports

Source: DesRosiers Automotive Consultants Inc. using Industry Data

The essence of Dean Bladen's report was the continuation of protection but by means that would minimize its cost. His central proposal was an extension of the policy adopted in 1936. His "extended content plan" stipulated, first, that all parts and assembled vehicles could enter duty-free, if they were imported by a manufacturer who had achieved the required content. Second, it stipulated that the content required would be established as a percentage of the sum of the cost of manufacture of the vehicles made in Canada plus the customs value of the imported vehicles, plus the customs value of imported replacement parts — thus extending the effect of content by linking it to the amount of sales in Canada rather than Canadian production. This was a key element eventually adopted in the Auto Pact. Third, the proposal enlarged the idea of content by including parts manufactured in Canada if they were assembled into vehicles made by the same company in no matter what country they might be sold.

In response to the Bladen Commission, the Government introduced a series of duty remission programs in 1962 and 1963 covering a broad scope of automotive products. They would grant a remission of "one dollar of exported Canadian content would earn the remission of duties of one dollar of dutiable imports".

The problem was that this type of program amounted to a bounty and was illegal under GATT. In 1964, the Modine Radiator Manufacturing Co. of Racine Wisconsin formally petitioned the U.S. Treasury Department to investigate and if found guilty a countervailing duty of 25 percent would be imposed on all Canadian automotive exports to the U.S. Canada and the U.S. were quickly heading towards a trade war in the automotive sector.

This begins the third era of the Canadian auto sector, … "The Auto Pact" … signed on January 15, 1965. The Auto Pact was negotiated to head off the impending trade war. Dean Bladen discussed the concept of the Auto Pact in his report but the first mention of it was actually in a pamphlet published in 1943 by the University of Minnesota and the University of Manitoba (a complete text appears as an addendum to this Observation).

"What is proposed, therefore, is that the managers of the industry, undertaking to maintain in Canada past normal levels of employment for a given long-term period of years, should produce only a small number of makes or even of models of cars and that the specific makes or models be subject to free importation in the United States. In the event that the proposal so stated in terms of models or makes of cars should be modified to include only the final assembly process of such makes or models of cars, the additional automobile production of Canada should be concentrated in a limited number of fundamental elements of an automobile which would flow with equal freedom into automobiles finally assembled in the United States as well as the models assembled in Canada".

The Auto Pact (the official title was "The Canada-U.S. Automotive Products Trade Agreement") established a conditional free trade zone for both vehicles and original equipment parts. Aftermarket parts remained dutiable. Canada instituted a multilateral agreement and the U.S. a bilateral agreement. The multilateral status allowed (at least until February 19th , 2001) Chrysler to import Mercedes-Benz, Ford to import Jaguar and Volvo and GM to import Saab, Isuzu and Suzuki products duty-free from their respective countries. Canada negotiated safeguards into the Auto Pact, the most significant of which were production to sales ratio requirements. Outside the formal Agreement, additional Canadian Value Added requirements were outlined in Letters of Undertaking by each of the vehicle companies.

The power of the Auto Pact came from its safeguards and the structure of its penalty. There were separate P to S ratio safeguards for cars and light trucks. This meant each company had to have both a car plant and a truck plant in Canada. This obviously benefited Canada when light trucks grew from 20 percent of sales to close to 50 percent of sales in the 1980s and 1990s. The penalty for missing a safeguard was an "all or nothing" type penalty. If a company missed their P/S ratio by even

Overview of Auto Pact

	1964	1988	Avg Annual 1964 - 88	2000	Avg Annual 1988 - 00	Avg Annual 1964 - 00
Employment						
-Parts Industry	36,000	55,000	1.8%	71,000	2.3%	1.9%
-Assembly Industry	29,000	87,000	4.7%	113,000	2.4%	3.9%
-Total Automotive	65,000	142,000	3.3%	184,000	2.4%	2.9%
Production in Units						
-Passenger Cars	560,000	1,028,000	2.6%	1,551,000	3.8%	2.9%
-Light Trucks	110,000	949,000	9.4%	1,415,000	3.7%	7.4%
-Total All Vehicles	670,000	1,977,000	4.6%	2,966,000	3.8%	4.2%
Production in Billions						
-Parts Industry	$0.60	$14.00	14.0%	$34.00	8.4%	11.9%
-Assembly Industry	$1.50	$27.00	12.8%	$69.00	8.9%	11.2%
-Total Automotive	$2.10	$41.00	13.2%	$103.00	8.7%	11.4%
Capital Expenditure in Billions						
-Parts Industry	$0.05	$0.90	12.8%	$1.50	4.8%	9.9%
-Assembly Industry	$0.05	$1.80	16.1%	$2.00	1.0%	10.8%
-Total Automotive	$0.10	$2.70	14.7%	$3.50	2.4%	10.4%
Total Trade in Billions						
-Parts Industry	$0.78	$34.83	17.2%	$68.91	6.4%	13.3%
-Assembly Industry	$0.25	$39.61	23.6%	$101.29	8.9%	18.2%
-Total Automotive	$1.02	$74.44	19.6%	$170.20	7.8%	15.3%
Total Trade Balance in Billions						
-Parts Industry	($0.57)	($9.53)		($22.25)		
-Assembly Industry	($0.08)	$8.38		$40.83		
-Total Automotive	($0.65)	($1.15)		$18.59		
Imports in Billions						
-Parts Industry	$0.67	$22.18	15.7%	$45.58	6.8%	12.4%
-Assembly Industry	$0.16	$15.62	20.9%	$30.23	6.2%	15.6%
-Total Automotive	$0.84	$37.80	17.2%	$75.81	6.5%	13.3%
Exports in Billions						
-Parts Industry	$0.11	$12.65	22.1%	$23.33	5.7%	16.2%
-Assembly Industry	$0.08	$23.99	26.7%	$71.06	10.4%	20.7%
-Total Automotive	$0.19	$36.64	24.6%	$94.40	9.0%	18.9%

Source: DesRosiers Automotive Consultants Inc. using Industry Data one unit (the actual ratio was in dollars not units) they had to pay duty on all their vehicles of that class. After problems arose meeting their P/S ratios in the early 1970s, each company moved to about a 2 to 1 ratio to avoid problems. As a result of the safeguards, vehicle production increased from 670,000 units to 2.9 million units in 1988. Employment grew from 65,000 to 142,000 and the value of trade grew from $1 billion to $74 billion in the same time frame. The Auto Pact put Canada on the global automotive map.

The Free Trade Agreement is the beginning of the fourth era of the auto sector in Canada. Effective January 1, 1989 and including Mexico as of January 1, 1994 the FTA/NAFTA established a continent-wide free trade zone in all products. It also effectively ended the Auto Pact. It did this by eliminating the penalty in the Auto Pact. The Auto Pact became redundant and without a penalty it became ineffective. The Auto Pact was only needed for its multilateral status allowing the "Big Three" to freely import vehicles into Canada from third countries — about 30,000 vehicles in 2000. The WTO ruled against this provision in late 2000, which officially ended the Auto Pact this year. I find the excitement surrounding the termination of the Auto Pact quite interesting. Some have speculated this is "the end of the auto industry as we know it." Actually for 12 years the industry has operated without the Auto Pact. How can finally killing it have any impact at all? It is unlikely that not one single manufacturing job in the industry will be lost because of the end of Auto Pact.

Indeed, the industry has done quite well over the last 12 years without the Auto Pact. Vehicle production has grown 3.8 percent per year under FTA/NAFTA versus 4.6 percent per year under the Auto Pact. Employment grew 2.4 percent per year under FTA/NAFTA versus 3.3 percent per year under the Auto Pact. Why would any of this change today? To be sure we are in a cyclical downturn but this has nothing to do with trade policy.

At the same time I do believe it is time to think through what our auto sector needs to do to ensure its future growth. We need a clearly defined automotive policy in this country. And this is where I disagree with our friends in the CAW. I believe our policy should be grounded in the principles of free trade rather than protectionism or safeguards.

The fifth era of the auto sector in Canada is upon us and it is the era of "intellectual" development. We have the opportunity to develop the industry to be one of the key intellectual centres in not only the North American auto sector but also the global auto sector. Our current intellectual centre is in Windsor-Essex County. Yes, Windsor is no longer purely a labour town. It is without question the primary focus for intellectual and high skilled jobs in the Canadian auto sector. In the last 10 years it has gone from under 100 engineers to over 2,000 engineers and from about 5,000 skilled trades to over 10,000 skilled trades.

The North American automotive industry comes to Windsor to buy its tools, molds and dies. DaimlerChrysler has close to a billion dollars invested in their R&D centre in Windsor. Ford has their global casting technology centre in Windsor and GM funds a chair at the University of Windsor. A number of OE parts producers have R&D centres in Windsor. The University of Windsor also has an automotive engineering course in its engineering school.

Canada's challenge is to build on its Windsor intellectual base. Our automotive future is "brain power" — not brawn. I am not sure how Canada can accomplish this objective but I do believe we need to start a dialogue with all interested parties to get the ball moving. In future Observations I will expand on this theme.

A proposal for the Rearrangement of the Automobile Industry of Canada and the United States After the War

- University of Manitoba
- University of Minnesota

The automobile industry of the North American continent initially developed in the area of the United States immediately adjacent to the Great Lakes. In due course the establishment of tariffs nurtured an automobile industry in Canada. That automobile industry was very largely a series of branch factories of the automobile companies of the United Sates. This illustrates the fact that when products cannot surmount a tariff wall the industry itself is built up on the other side of the tariff wall.

As a result Ford cars in the United States are Ford cars in Canada; the Chevrolet is well known in both of our countries; and Buick is now Buick to the people of Canada and the United States.

This branch factory system in the case of automobiles was widely extended in Canada so that there were produced in the United States. Moreover, the Canadian industry also manufacturers much of the content of the Canadian cars. As a result of the making of a great many kinds of cars in Canada and making most of what went into them, the Canadian factories experienced higher cost levels. This, however, did not prevent the growth of the industry in Canada because it was protected by tariff. Nevertheless, although automobiles were produced in Canada in types wholly comparable to those available in the United States, there was one marked difference. That was that automobiles in Canada cost about $250 more each than did a product in the United States.

With the great interest all democratic nations have had in securing for their people maximum employment in useful civilian occupations, the maintenance of the automobile industry in Canada was naturally widely accepted in all parts of the Dominion. The problem that is presented to improve the industry, employment in it, and the prices both of our peoples pay for cars is one well worth the attention of both countries for the postwar period.

The Situation During the War

As is so well and widely known, the entire automobile industry of Canada and the United States has gone completely to war. No automobiles are manufactured in either country for normal civilian use. As a result of (1) complete dedication of this industry and its workers to war and (2) the common managements or close relations between the managements in the industry on both sides of the border, an unusual opportunity will be offered when the war ends to improve the future position of the industry in the Great Lakes area of North America.

The Rearrangement of the Automobile Industries of the United States and Canada

The automobile industry, from the point of view of its postwar output when it can again produce products for welfare instead of warfare, in both of our countries has been badly scrambled up during the war. That scrambling process, so to speak, is evidenced, if in no other way, by the vast amount of tools now stored in grease inside of factories and outside of factories under covering from the weather. What kind of proposal can be made to reorganize the industry so that it will maintain a high volume of employment in both of our countries after the war and provide our consumers with far cheaper or better cars?

We propose that our governments, with the aid of mutually helpful agreements promoted by them, shall request the operators of our joint automobile industry to re-design sensibly the basis upon which the industry on both sides of the Great Lakes shall build up its postwar production. The sensible way in which this might be done by the joint managers of that industry upon such a request by our governments would be so to organize the industry as to achieve benefits for our people in both countries either working in the industry or buying its products.

The Proposal

Common sense suggests that the automobile industry should, after the war, be so organized in its several parts on both sides of the Great Lakes that the following objectives are secured for each respective country:

Canada	1.	Cars available to Canadians as cheaply as they are available to the people of the United States.
Canada	2.	Normal employment maintained in the automobile industry in Canada.
United States	1.	Enlarged employment resulting from the greater market that will be available in all of North America as a result of the more efficient industry that can prevail after the war.
United States	2.	Greater employment that will result from a larger world market when the product of the new Great Lakes automobile industry is available at lower prices in the world markets.

Before turning to consider how these advantages can be secured, it is essential that the general lines of reorganization of the industry be given. While the reorganization would affect primarily the types of automobile products manufactured in Canada more than it would bring about a like change in the United States, it would not affect the productive activity of making automobiles in Canada.

What can in a very general way be proposed is that after the war the joint managers of the automobile industry in both countries should undertake, under the condition of maintaining for a given period of years past normal levels of employment in the industry in Canada, only those productive processes in Canada which could be carried on with a maintenance of such employment and achieve, item for item produced, the cost levels secured in the United States. This would require that the Canadian scale of operations be so modified that there would be concentration either on certain specific models of cars (rather than upon a diverse range of cars) or concentration in large part upon the manufacturer of certain fundamental parts of all cars.

What is proposed, therefore, is that the managers of the industry, undertaking to maintain in Canada past normal levels of employment for a given long-term period of years, should produce only a small number of makes or even of models of cars and that the specific makes or models be subject to free importation in the United States. In the event that the proposal so stated in terms of models or makes of cars should be modified to include only the final assembly process of such makes or models of cars, the additional automobile production of Canada should be concentrated in a limited number of fundamental elements of an automobile which would flow with equal freedom into automobiles finally assembled in the united States as well as the models assembled in Canada.

This is nothing more than saying that the joint managements of the industry would undertake to achieve in those productive operations in each of our countries what is commonly called best, most efficient, or "optimum" size. Such optimum size is simply another way of saying lowest possible cost levels, and therefore, price levels. The rearrangement of the industry on the Canadian side certainly can yield, with the known highly efficient labour and management available in Canada, a volume of production capable of maintaining past normal levels of employment.

Advantages for Canada
In the case of Canada the advantages are twofold. These two advantages are believed to be the objectives which all Canadians have for this industry, and, of course, for others as well. They are that (1) employment opportunities shall be preserved and (2) low costs and low prices be available to the purchasers of the industry's products. Thus were this general proposal made effective, Canada would secure the dual advantages of greatly lowered prices for automobiles and at the same time the maintenance of the former level of employment in the industry.

Advantages for the United States
The United States would secure some degree of improvement in efficiency, and therefore, lower costs and prices. The degree of such improvement would naturally no be very substantial because the United States has been habituated to producing a large number of automobiles, thereby easily securing relatively low costs. But, although the cost and price reduction in the United States would not be large, it would, nevertheless, apply to a greatly increased number of units. Conversely, in Canada the price reduction could be extremely large per car, but because of Canada's smaller population, it would apply to a smaller number of units.

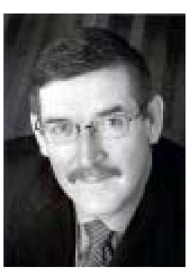
Advantages to Both Canada and the United States
The new so-called Great Lakes automobile industry would enjoy a larger total volume of production and consequently a larger amount of employment could be divided among workers available to the industry in both of our countries. This is so because the lowered prices in both countries would result in a larger total annual sale and, therefore, production of automobiles.

In addition, with the modification, assented to in principle, of British and other preferential tariffs in world markets for automobiles, both Canada and the United States would further enjoy increased production and sale of automobiles by their entry into world markets without encountering present high tariffs or the entry at preferred tariffs of higher-unit-cost automobiles. Thus, not only would lowered prices result in a larger market in North America, but also in many other world areas.

Amplification of the Proposal to the Benefit of Other Countries
The proposal so briefly outlined above only in very general principles can be recommended for adoption by other nations of the world. We in Canada and the United States, having a great industrial production for each of our countries, can hardly expect that other industrially newer world areas will not attempt with all the vigor they possess to build or enlarge industrial production within their own lands.

In the case of each of our countries, to be sure, we have achieved a great industrialization. But in the process we have made many blunders and mistakes. These are manifest in the derelict and backward industries we both possess. Great assistance could be given other countries by Canada and the United States, and of course by other industrial nations as well, by counseling with the newer countries as to which areas of industrialization may profitably and sensibly be developed by them. As a helpful aid, we ourselves, in return for their narrowing the sectors of the industries they propose to build to those that they can expect to maintain efficiently, might well consider those changes in our tariffs which would permit freer import into our own countries of such industrial products. In return less restrictive arrangements might be adopted by such other countries to admit more freely in other sectors the products we can continue to produce most efficiently. In this direction lies one solution to the problem of agricultural surpluses in the Central Northwest United States and in the Prairie provinces of Canada.

A consideration of the proposal, illustrated here only in terms of a single industry for Canada and the United States, quickly suggests that if it is found feasible it might have wider application. In that way, the objectives that we would undertake to secure for ourselves could also be achieved by many other countries.



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