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The Political Implications of the Canada-United States Automobile Agreement

William G. Park
Wilfrid Laurier University

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THE POLITICAL IMPLICATIONS OF THE
CANADA-UNITED STATES AUTOMOBILE AGREEMENT

by

William G. Park
B.A. Waterloo Lutheran University, 1969

THESIS
Submitted in partial fulfillment of the requirements for the Master of Arts degree
Waterloo Lutheran University
1973

Examining Committee
Dr. John Redekop, Chairman
Dr. John McMenemy, Dept. of Political Science
Dr. John Weir, Dept. of Economics

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ABSTRACT

Since the Canada-United States Automobile Agreement came into effect in 1965 there has been relatively little scholarly comment on it. This is surprising in view of the attention which has been given to other bilateral treaties between the two countries and in view of the effect that the treaty has had on the operation of the automobile industry in both countries. In fact, to the best of the author's knowledge, this is the first study which has examined the Automobile Agreement from a political point of view.

The Agreement came into effect at a time of political re-evaluation in Canada. The Canadian government and the Canadian people had begun, by 1965, to examine more carefully than ever before the nature and the implications of the economic ties which existed between Canada and the United States. Those Canadians who were opposed to the Automobile Agreement in 1965 found that their arguments were overshadowed by the assertions of those presenting the economic advantages which would presumably come about as a result of the Agreement.

The Automobile Agreement has been in effect for eight years and there are now several groups in both countries which are calling for the abrogation of the Agreement. These groups include some Canadian automotive parts manufacturers and a radical wing of the
Canadian branch of the United Automobile Workers. In the United States several prominent Senators and executive officials from the Johnson and Nixon administrations oppose the Agreement. It should be noted that each of these groups opposes the Agreement for its own set of reasons.

Given the nature of the opposition one might have expected some alterations in the original Agreement. The evidence suggests that this has not occurred due to the support which the Agreement, in its present form, has received from the major automobile manufacturers in Canada and the United States and from each of the national political parties in Canada.

The purpose of this study, then, is to examine whether or not the Automobile Agreement is in the long term interest of Canada's political nationality and whether or not the Agreement facilitates the development of a distinctly Canadian industrial strategy.
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ACKNOWLEDGEMENTS

Various persons have been helpful to me as work on this thesis progressed. Mrs. Inez Cawley has been consistently helpful in assisting me in finding various government documents in the library at Waterloo Lutheran University. Robert Thompson M.P. arranged the interviews used in the thesis which were conducted in Ottawa. My thesis committee of Doctors John Redekop, John McMenemy, and John Weir pushed me to a better effort and for this I am grateful.

I am indebted to Mr. Hazel Mueller whose interest, patience and meticulousness in the typing of the manuscript is happily acknowledged.

I offer my thanks to all of my parents who encouraged me in every way. My greatest debt is to my wife, Kirsten, who steadfastly refused to allow me to lose heart when the work became most difficult.

The entire responsibility for what appears in this study must rest with the author. The views expressed are mine alone and not necessarily those of any of the persons or the institution above.

To all those who have helped, I offer my humble gratitude.
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INTRODUCTION

There are wide differences of opinion about the usefulness of the Auto Agreement on both sides of the Canada-United States border. On the one hand there are those who claim that the Canadian automobile consumer can only benefit "by our continental system of vehicle assembly"\(^1\) which has been partially brought about by the Auto Pact. On the other hand there are those who suggest that the Auto Pact represents the sale of Canada's "economic birthright",\(^2\) and that when such a sale is achieved it is then impossible to "retain your political birthright".\(^3\) There is some truth in each statement. My own view is that an understanding of the Auto Pact is crucial to understanding Canadian-American relations. Indeed, such an understanding may well be crucial to understanding the future of Canada, both politically and economically.

The Automobile Agreement has brought about economic benefits for the automobile manufacturers and has brought about an increase in employment in the automobile industry in this country, but there is

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\(^3\)Ibid.
little evidence to suggest that these benefits have been passed along, even indirectly, to the automobile consumer. Furthermore, the Automobile Agreement, in itself, does not represent the sale of Canada's economic or political birthright, but the integration of the Canadian and United States automobile industries brought about by the Agreement does undermine Canada's political nationality.

It is my position that the Automobile Agreement is an inferior response by the Canadian government to an area of significant stress on the political system, namely: the concern of many Canadians about the implications of massive direct investment in this country coming from the United States. My concern about the external control of the Canadian economy is based more on political than economic arguments. The Automobile Agreement is significant, not so much because it encourages rationalization of direct investment in Canada, but rather because the Agreement is a precedent which may possibly inhibit the Canadian government in devising and implementing economic policies aimed at achieving Canadian political interests.

These political interests include the promotion of east-west ties of commerce and culture, as opposed to north-south ties promoted by the Automobile Agreement, which tend to erode Canada's national identity; distinctive Canadian international trade and foreign relations; distinctive Canadian wage and social security policies and independent tax and monetary policies designed to achieve national objectives.

Furthermore, the Canadian economy and Canadian trade is coming more and more to be founded on secondary manufacturing
industries rather than on primary resource industries. As this process continues, it seems likely that various manufacturing sectors in Canada will have to be rationalized as part of an overall industrial strategy which provides for higher levels of employment of Canadian resources, including maximum development of Canadian entrepreneurial talent and Canada's human resources. The Canadian government has a fundamental political role to play in the development of such an industrial strategy.

An industrial strategy which safeguards the existence of a distinctive Canadian nationality should include the following objectives: the development of Canadian management skills required to manage large business complexes at the international policy level; the promotion of Canadian participation in ownership of all segments of Canadian business; the removal of the limitations on the exports of Canadian subsidiaries so as to develop Canadian expertise in the export area specifically, and in the international business area generally, and the encouragement of higher levels of research and development in Canadian industry so as to increase substantially the employment of Canadian scientific engineering, and technical support personnel in Canada.

I submit that the Automobile Agreement undermines these political interests and the development of the kind of industrial strategy mentioned above. The Automobile Agreement encourages the rationalization of the automobile industry in Canada on a continental basis and so places the Canadian government in the position of only

being able to maintain, through the production safeguards, the growth of the automobile industry in Canada, rather than placing the government in a position to influence and encourage the growth and development of the automobile industry, not only in this country, but also in the international marketplace. The Canadian government must not only be able to introduce legislation to encourage the political interests and industrial strategy, which I have mentioned already, but also the government must ensure that whatever policies it implements, in either of these essential areas, can and will be carried out.

Bilateral trade arrangements such as the Canada-United States Automobile Agreement represent a movement away from both the political interests and the industrial strategy mentioned above, which are in the long term interest of the Canadian nation. The degree of movement away from these priorities in the specific case of the automobile industry is difficult to gauge, but it is my intention to demonstrate that the Automobile Agreement denies Canadians the freedom to set their own priorities by denying the validity of the non-economic motivations in Canada's political interest and industrial strategy.

The Automobile Agreement provided the conditions for duty-free trade between the two countries in most new vehicles and parts to be used as original equipment. The agreement was similar to other bilateral trade arrangements between Canada and the United States, such as the Defence Production Sharing Agreement of 1959, in that it

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5 See the Appendix, for the formal text of the Automobile Agreement. It should be noted that specialty items such as tubes, tires, and automatic transmissions were excluded from duty free treatment.
included a provision to allow either party to abrogate the pact after a twelve-month notification.\textsuperscript{6} It is the corollary conditions, imposed by both countries, which have precipitated profound political effects not only in the Canadian domestic context, but also in the bilateral relations between Canada and the United States.

Canada established conditions in the Agreement which were designed to influence the pattern of Canadian automotive production.\textsuperscript{7} Under these conditions Canada accorded duty-free trade arrangements only to manufacturers who met specific conditions. The first of these conditions was that to qualify as a manufacturer, the ratio of a manufacturer's vehicle sales to production must be at least seventy-five percent, using an arbitrarily established "base year", which ran from August 1, 1963 to July 31, 1964.\textsuperscript{8} The purpose of this condition was to ensure continued production growth in Canada.\textsuperscript{9}

One further commitment which the Canadian government required of the automobile manufacturers in this country was in the form of the "letters of undertaking". These "letters" committed manufacturers to increase their value-added by an amount equal to sixty percent of

\textsuperscript{6}See the Appendix, for the formal text of the Automobile Agreement.

\textsuperscript{7}See the Appendix: Annex "A".

\textsuperscript{8}To achieve duty free treatment under the terms of the Agreement, only a firm which achieved a ratio of Canadian vehicle production to vehicle sales in Canada during each model year of at least seventy-five percent qualifies as a "manufacturer".

\textsuperscript{9}This was confirmed by D.S. Wood, (who, in 1965, was president of the Canadian Auto Parts Manufacturers Association) in a Memorandum from the President to the Auto Parts Manufacturers Association (Canada), May 14, 1965. The memorandum was obtained from the files of A.D. Hales M.P.
the growth of net sales in cars and fifty percent in commercial
vehicles. Also included was a commitment by the Canadian manu-
facturers to increase their purchases and production in Canada by
a specific dollar amount which was divided as follows: General
Motors $121 million; Ford $74 million; Chrysler $33 million;
American Motors $11 million; and all others $21 million. The
obligations set forth in these "letters" were to be fulfilled by
the end of the 1968 model year. By the end of 1968, all of the auto-
mobile manufacturers in Canada had met the conditions of increasing
their rates of Canadian value-added according to their increases in
net sales and spent the amount required of them on increased purchases
and production. The first two conditions remain in effect at this
time.

The only United States restriction was that imports from
Canada must have fifty percent North American content to qualify as
duty free. This restriction was included to prohibit import entries
from third countries. There was no American requirement that
importers be manufacturers only, indeed, any United States citizen,
private or corporate, was permitted to import automotive products
duty free, with the exception of the condition mentioned above.

10 In addition to the production-sales requirement, a
"manufacturer", in order to achieve duty free treatment, must produce
vehicles which have Canadian content, or value-added, at no less than
the absolute dollar amount of Canadian content achieved in the 1964
model year.

11 Interview with Bert Barr of the Department of Industry,

12 C.E. Beigie, The Canada-U.S. Automotive Agreement, An
Because of this restriction on imports from third countries, the United States was obliged to apply for a waiver from the General Agreement on Tariffs and Trade (G.A.T.T.) which it subsequently received. The General Agreement on Tariffs and Trade requires countries which have signed the General Agreement to reduce duties on certain imports from all countries, in return for concessions from other potential importers. If the American government had not received the waiver from G.A.T.T., the Automobile Agreement would have been a violation of the most-favoured-nation principle of the General Agreement on Tariffs and Trade previously signed by the United States. Canada, on the other hand, had no need for making any similar provision since all automobile imports into Canada were accorded duty free treatment as long as these imports were carried out by a manufacturer meeting the two conditions already mentioned.

Since the end of the Second World War, Canada and the United States have developed compatible policies, particularly in their economic and trade relationships. Some Canadians have begun to decry this phenomenon during the last ten years; they fear that integrated economic and trade relations with the United States leads ultimately to the loss of Canadian political sovereignty. The Automobile Agreement has encouraged and to some extent facilitated the establishment of a North American automobile industry. The Automobile Agreement does not, in itself, represent a step toward the loss of Canadian political sovereignty. There is no question that the Canadian government has the authority to pass any law it sees fit
which would affect the automobile industry in this country. There may be a question, however, as to whether such laws affecting the automobile industry can be enforced and whether this process is helped or hindered by the Automobile Agreement. It is my intention in this analysis of the political significance of the Agreement, to shed some light on these questions.

I propose to examine the Automobile Agreement in the following sequence: an historical analysis of the automobile industry in Canada prior to 1965; an examination of the automobile industry's assessment of the Agreement; the United States political assessment of the Agreement; the Canadian political assessment of the Agreement; and an investigation of some political implications of the Agreement.

The second chapter includes a description of the automobile industry prior to the signing of the Automobile Agreement in 1965, and of the political attempts made by the Canadian government prior to 1965 to revitalize and expand the Canadian automobile industry. The chapter dealing with the automobile industry's assessment considers the influence that the industry had on the Canadian government during the political planning process which culminated in the Canadian proposals to the United States for a bilateral automobile trading agreement. This chapter also illustrates the initial and continuing support of the automobile manufacturers for and the automobile parts manufacturers reservations about the Automobile Agreement, and an examination of the United Auto Workers Union position with regard to the Agreement. The chapter on the United States political perception of the Agreement deals with reasons for the opposition of a number of United States Senators and some executive officials to the Automobile Agreement.
The chapter dealing with the Canadian political perception of the Agreement examines the reasons why the Agreement is considered to be successful by many public figures and most public servants. Further, this chapter examines some of the recent indirect pressure which has been exerted by the United States to have the Agreement changed. The chapter on the political implications of the Agreement reviews the political decisions made by the Canadian government concerning the ratification of the treaty in Canada. Further, I examine in this chapter, the political effects the Automobile Agreement has had on the general relationship between Canada and the United States and the specific effect the Agreement has had and will likely have on the trading relations between the two countries. Finally, the conclusion will present this writer's judgments based on the preceding chapters.

Primary source material was the basis of my research to the fullest extent possible. I made extensive use of interviews while collecting research material. Respondents were participants in the negotiations and were candid in their discussion of the Automobile Agreement. I was particularly fortunate to obtain interviews with Donald Thom, who is now an Assistant Deputy Minister in the Department of Finance and with Bert Barr, who is an officer of the Automotive Division of the Department of Industry, Trade and Commerce. Mr. Thom, who was than an Assistant Deputy Minister in the Industry Department, along with Simon Riesman, who was then Deputy Minister of Industry and C.M. Drury, Minister of Industry in the federal Liberal government were primarily responsible for drawing up the Canadian proposals for an Automobile Agreement in 1965 and they subsequently led the Canadian negotiating team in its discussions with the Americans,
which came to fruition in the form of the Automobile Agreement. Mr. Thom was very forthright, perhaps because he is no longer directly involved with the Automobile Agreement.

The American negotiating team was headed by Luther Hodges, Secretary of Commerce, and by Henry Dempsey, Director of the Trade Initiative Division of the Department of Commerce. It is interesting to note that the negotiation of the Automobile Agreement was the last official act performed by these men. They were replaced by John O'Connor and Robert McNeil on January 18, 1965, two days after the official signing of the Agreement. Mr. Hodges and Mr. Dempsey knew that they would be leaving their respective posts prior to January 18, 1965 so the Automobile Agreement was not the reason for their departure. There is no evidence that Mr. Hodges or Mr. Dempsey were less expert in the negotiations than their Canadian counterparts, but at the same time, the American delegates knew that they would not be officially answerable for the Automobile Agreement after its ratification, and therefore might have been less vigilant than they might normally have been if they were going to continue in office.

Mr. Barr has worked on the day to day operation of the Automobile Agreement since 1967 and his comments were detailed.

Other interviews conducted with Hugh Beechey of General Motors and Joel Shelley of Ford were interesting because both men held not only roughly equivalent positions in the two companies,

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13 Interview with D.C. Thom, of the Department of Finance, August 3, 1971.
both are attached to the Public Relations Department of their respective companies, but also held basically similar views about the Automobile Agreement. Arnold Wallace, who at the time of the interview was Vice-President of Earl Robinson Auto Parts of Oshawa, was rather bitter about the effect the Automobile Agreement has had on his company in particular, and the automotive parts industry generally in Canada. I interviewed Mr. Wallace because of his position in the automotive parts industry in Canada and because I had been made aware that Mr. Wallace was dissatisfied with the results of the Agreement as they affect his company. His distaste for the Agreement contrasted sharply with the views of Mr. Beechey and Mr. Shelley who both felt that the Agreement was a boon to the automobile industry in Canada.

A.D. Hales, Progressive Conservative Member of Parliament, added a dissenting voice to the discussion concerning the Agreement. As the most vocal critic of the Agreement at the time that it was announced in 1965, Mr. Hales' reflections were important for this study. Another key source of primary material was the six volume file on the Automobile Agreement which Mr. Hales has collected. Mr. Hales allowed me access to the file, which included material that he had received confidentially, as well as material he had presented to the Progressive Conservative Caucus as the party's chief critic of the Agreement. I cannot overrate the usefulness of that material in the preparation of this thesis.

I used the secondary material, for the most part, to fill in such gaps as were left through my use of primary material C.E. Beigie,
who is an international economist with the Irving Trust Company of New York City, in his book, *The Canada-U.S. Automotive Agreement: An Evaluation*, provides the best general economic analysis of the Agreement. The report of the Standing Committee on Commerce of the House of Commons, *Automotive Products*, describes the potential economic benefits that were anticipated by the government in 1965. The *Hearings* of the Committee on Finance of the United States Senate on the Automobile Agreement give an insight to the nature of the opposition of some American Senators to the Agreement. These documents, particularly, were valuable as a complement to the primary material.

The research methods which I used caused some difficulty in two respects. First, the interview technique was difficult, in that there seemed to be a tendency on the part of the people interviewed to tell me what they thought I wanted to hear. I feel I overcame this problem to some extent by asking several different kinds of questions on the same topic. Second, I encountered some difficulty in my research methods in that virtually all of the studies that have been done on the Automobile Agreement have been from an economic perspective. In choosing to examine the Automobile Agreement according to its political implications, I was confronted with the advantage of having great latitude to collect and interpret research material on the one hand, and the disadvantage of having no comparable studies to examine on the other hand.
CHAPTER I

THE POLITICAL ADVENT OF THE AUTOMOBILE AGREEMENT

To gain a better understanding of the Canada-United States Automobile Agreement of 1965, it is necessary to examine the nature of the automobile industry in Canada and the background events which immediately preceded the signing of the Automobile Agreement by Prime Minister Pearson and President Johnson in Johnson City, Texas, on January 16, 1965.

Neither before 1965, and certainly not after that date, has the Canadian automobile industry been autonomous. This fact must be stated unequivocally and its implications understood. The automobile industry in Canada constitutes a classic example of United States direct investment in this country. By direct investment I refer, according to A.E. Safarian's definition to, "a business operation incorporated in Canada in which effective control of that operation's voting stock is held by non-residents."¹ In the case of the automobile industry effective control is held to the extent of ninety-seven percent by non-residents, i.e. United States residents.² What are the implications for Canada as the host for an industry which has been completely foreign controlled for decades?

In the first place Canada can expect only a very limited development of her managerial resources since real control is held in Detroit, not in Oshawa and Oakville. Thus decisions which affect the automobile industry in Canada are international in the sense that they are taken in the interest of the automobile industry generally and have little to do with Canada's interest. The automobile industry in Canada is headed by officers whose decisions fulfill a managerial rather than an entrepreneurial function and which follow general guidelines established in the United States.  

The Automobile Agreement accentuates the managerial function of Canadian automobile executives as opposed to the entrepreneurial function and so undermines the potential of the Canadian government to promote the development of Canadian management skills for large businesses at an international level. As a result of the Automobile Agreement production decisions have been removed from the prerogatives of Canadian managers. For example, Ford of Canada has had no senior executive in charge of production in Canada since 1965.  

Another result of the Agreement is that Ford of Canada plant managers report functionally to their parent corporate officers in Dearborn, Michigan.  

Similarly, as a result of the Automobile Agreement the elimination of a number of managerial positions at Ford of Canada has been brought about, with the responsibility of these positions going to officers

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3 See A.E. Safarian, op. cit., pp. 50-88.


5 Ibid.
of the parent company in Michigan.6

A second implication, which is not directly related to the Automobile Agreement is that the automobile industry in Canada, because of its subsidiary nature, has a relatively limited export franchise so that the Canadian subsidiary will not compete with its United States parent in third countries.7 Following this formula, Ford of Canada may export its products to all Commonwealth countries except the United Kingdom which is reserved for the parent company in the United States as is the rest of the world except those areas which may be delegated to a subsidiary in yet another country by the United States parent. Obviously such a policy makes good corporate sense;8 however, it is just as obvious that Canadian freedom of trade is at least undermined, not in the formulation stage but in the implementation stage, because of the control of the Canadian subsidiary by the American parent. For example, there was the case of Ford of Canada's hesitation to export trucks to the Peoples Republic of China in 1957 because this might have contravened the United States "Trading with the Enemy Act". In this instance not only was Canada's freedom to trade subject to serious reservations but also her sovereignty over her own foreign policy restricted, again

6I.A. Litvak, op.cit., p. 152.

7A.E. Safarian, op.cit., pp. 103-144.

8Interview with Joel Shelley of Ford of Canada (Oshawa, July 5, 1971). In Mr. Shelley's words, "It wouldn't make much sense to compete against ourselves."
not in its formulation stages but in its implementation phase. In the
typical cases mentioned above the problems arose basically because of
the wholly-owned-subsidiary nature of the automobile industry in
Canada. 9

An important feature of the "Trading with the Enemy Act" is
its anticipatory nature. There are not many instances in fact of
this type of restriction because Canadian subsidiaries of United States
parent corporations do not explore those export possibilities which
might bring about a negative United States government reaction if
these possibilities were to be pursued.

The Automobile Agreement reinforces the restrictions
mentioned above. At the same time the Agreement, by reinforcing
trade restrictions on Canadian subsidiaries, limits the development
of an industrial strategy by the government which maximizes the
development of Canadian entrepreneurship through the removal of
export limitations on Canadian subsidiary business operations.

Thirdly, as a wholly-owned subsidiary operation, Ford of
Canada leaves virtually all of the research and development to its
foreign-owned parent. 10 Certainly the lack of research and develop­
ment facilities is not unique to the automotive industry in Canada,
indeed the lack of such facilities tends to be a common result of
foreign direct investment in Canada. 11 In the automobile industry

9 cf. A.E. Safarian, op.cit., p. 144 and Canada, House of
Commons, Debates (Ottawa, December 18, 1957), p. 2514.

10 See I.A. Litvak, op.cit., p. 69.

the lack of research and development facilities in Canada perpetuates
the reliance of the Canadian subsidiary on its United States parent
while the technical and financial benefits which result from research
and development accrue almost totally to the United States economy.
A.E. Safarian, for example, points out that where the products of
the subsidiary and the affiliate are generally identical, such as
in the automobile industry, only one subsidiary firm in four does
any research at all.

Ford, for example, employs all its Canadian research and
development staff in Dearborn, Michigan. Ford employs no research
and development staff in Canada. The Automobile Agreement has
perpetuated this phenomenon in Canada. As a result of the Agreement,
Ford of Canada rationalized its production in Canada but "no research
and development unit was established in Canada to service the product
line on which specialization took place in Canada" since this need
could be met from resources in the United States. The point is that
the Automobile Agreement undermines the achievement of higher levels
of research and development in Canada which allow for the increased
development of scientific, engineering, and technical personnel as
part of an overall industrial strategy. The Canadian government
cannot make the best use of this country's human resources if it
pursues policies such as the Automobile Agreement which undercuts the
potential for these Canadians to work on research and development in
their own country.

12 I.A. Litvak, op.cit., p. 69.
13 Ibid., p. 152.
Finally, the financial policies of the automobile industry in Canada fail within the overall requirements of the parent United States companies. In the automobile industry in Canada these policies have meant, for example, that the subsidiary operations in Canada are often required to buy parts and services from its United States-based parent even when other sources may exist in Canada. Direct empirical evidence is limited on this point due in large part to the very large size of the automobile industry. Mr. Beechey, of General Motors of Canada pointed out that often the Canadian operation buys parts and services jointly with its parent firm although these parts and services will be used exclusively by the Canadian plant.  

A.E. Safarian maintains that purchases from the parent company increase in proportion to the similarity of the products between the subsidiary and the affiliate.

Very often lower costs and familiarity with the parent's supplies, especially in design-oriented products, are the main reasons for a Canadian subsidiary buying through its parent. A.J. Wallace of Earl Robinson Automotive Parts of Oshawa, pointed out that even when a Canadian parts manufacturer produced a comparable part (the only difference in some cases being the manufacturer's name which is stamped on the part) at the same price as that manufactured in the United States, the Canadian automobile manufacturer would as often as not continue to use the part which its parent had

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14 Beechey Interview, Oshawa, July 8, 1971.

always used.\footnote{16}{Wallace Interview, Oshawa, August 12, 1971.}

Mr. Shelley of Ford of Canada confirmed Mr. Wallace's statement; he noted that even when a Canadian parts manufacturer was able to produce a part similar to the one already being used at about the same price, which according to Mr. Shelley, happens very rarely, Ford of Canada tends to stay with the part it has been using rather than making changes in the delivery schedule and assembly line to which Ford has become accustomed. Perhaps most significant for our purposes here, however, is that Mr. Shelley could not say that Ford of Canada would definitely and on its own purchase new parts for its assembly line which are superior in quality and comparable in cost to those already being used, no matter where these new parts were being manufactured.\footnote{17}{Shelley Interview, July 5, 1971.}

The Automobile Agreement strengthens the single market type of operation described above. As this phenomenon develops the operation of Ford of Canada tends to lose its financial integrity in the sense that profits may be transferred to the parent corporation without the benefits of ownership accruing to Canadians. The evidence for this likelihood is that Ford of Canada which sells its stocks to the Canadian public, as opposed to General Motors of Canada which does not, was 81 percent owned in 1969 by the parent firm and the Ford family as opposed to 74.9 percent in 1964 before the Agreement came into effect.\footnote{18}{I.A. Litvak, \textit{op.cit.}, p. 139.} Therefore, the Automobile Agreement as a model of Canada-
United States economic integration works against the development of an industrial strategy by the Canadian government which promotes Canadian participation in ownership of all Canadian business.

The nature of the automobile industry in Canada, because it is effectively a United States subsidiary and because of the integration within the industry itself, has provided for the extension into Canada of American technical skills, management skills, product innovation, and the need for capital to create and cultivate taste formation through advertising. There are advantages and disadvantages in having this type of an operation in Canada. I feel that the disadvantages outweigh the advantages. The advantage of having this type of an operation is that the Canadian automobile industry has access to perhaps the most developed automobile industry in the world.

Having access to, and being directly affiliated with, the United States-based automobile industry, however, means ultimately that the Canadian automobile industry's potential is limited to growth rather than real development. The sharpening of Canadian technical skills in the automobile industry will not be required since the Canadian industry has access to all the new techniques which are developed in the United States. Canadian management skills in the automobile industry are limited in scope. The Canadian manager is left to increase the sales of an automobile product in the areas for which he is responsible. The Canadian president of a subsidiary automobile manufacturing concern is unlikely ever to be in a position to accept the blame for initiating the production of the Edsel or to accept the credit for initiating the production of the Mustang. The Canadian manager's job is primarily to sell these products. Because
the products of the Canadian and American automobile industries are so similar, these products are advertised in very much the same way in both countries. Potential Canadian automobile consumers are urged, like their American counterparts, to "move up". Despite the widespread Canadian consumer acceptance of mid-size and compact cars, the automobile industry in Canada tells Canadians to "move up" because that is what its affiliate does in the United States, rather than taking advantage of the widespread Canadian desire for economy cars. None of these features of the automobile industry in Canada are harmful in themselves so long as Canadians and their government are satisfied that it is enough for the automobile industry in this country to grow according to American specifications rather than to develop the features mentioned above according to particular Canadian needs.

The Automobile Agreement is instructive as a model indicating the kinds of effects which result from economic integration between Canada and the United States. The Canadian government cannot maintain, much less direct, Canada's political nationality if development of the economic growth of the country is directly related to a spin-off from the United States economy. The Automobile Agreement moves Canada in exactly the direction of reliance on the spin-off effect of the United States economy and so undermines the Canadian political nationality.

The automobile industry in Canada has not always been a subsidiary operation. The McLaughlin companies which began operation in 1867, in Oshawa, Ontario, were Canadian pioneers in transportation equipment. The wholly-owned and operated Canadian company began to
produce automobiles in the 1890's. The operation must have been successful or General Motors of the United States would not have offered R.S. McLaughlin the opportunity for a merger between the two in 1918. Colonel R.S. McLaughlin was nothing if not a shrewd businessman and the opportunity to join forces with a giant such as General Motors is one that very few Canadian, past or present, would pass up. Colonel McLaughlin retained his position as President of the Canadian operation of General Motors after the merger and at the same time received a position on the Board of Directors of the American division of General Motors. Colonel McLaughlin retained both of these positions until his death two years ago, which is an example of the respect in which the man was held by his American counterparts.

The purpose of this brief history of the automobile industry in Canada is to demonstrate that the existence of this particular industry is dependent upon north-south commercial ties or in other words, access to the United States market. The McLaughlin experience suggests that a Canadian automobile concern can exist only by having access to the American market in addition to its share of the Canadian market. Colonel McLaughlin secured the survival of his own operation in Canada and achieved access to the American market at the same time by joining forces with the American-based General Motors in 1918.

The tradition of north-south ties between the automobile industries of Canada and the United States has long since been established and the examples mentioned above illustrate the trend. The

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19 See James Dykes, Canada's Automotive Industry (Toronto, 1970), chapter 3.
Automobile Agreement is evidence of the Canadian government's position that the access by the Canadian automobile industry to the American market is more important than the potential erosion of Canada's national identity which is founded on east-west ties of commerce and culture. The government, through the Automobile Agreement, has so committed the automobile industry in Canada to north-south integration with its United States counterpart that not only is Canada's long term political interest undermined but also the vitality of the industry itself in Canada. The Automobile Agreement, according to one description, has left Ford of Canada's headquarters as "a merchandising shell housing only the functions of finance, marketing and planning, industrial relations, dealer affairs and public relations". The Canadian government may have acquired economic access to the United States automobile market through the Automobile Agreement at the long term political expense of Canada. It is unlikely that the Automobile Agreement in itself will bring about the political demise of Canada, the Agreement does, however, undermine the validity of the east-west political axis upon which this country is founded.

The negotiation of the Canada-United States Automotive Agreement was preceded by a series of circumstances which were in some ways unique to the automobile industry and in other ways subject to circumstances which were imposed by well-intentioned Canadian governments on the industry generally. Dealing with the latter first, it would be no understatement to say that the automobile industry in Canada prior to 1965 was profoundly affected by the tariff rates set on imports of

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20 I.A. Litvak, op.cit., p. 152.
automobiles and parts by Canada's main customer, the United States.

In Canada, the import tariff rate from 1936 to 1965 was set at seventeen and one-half percent of the wholesale cost of the item. This charge could be avoided on parts imported into Canada if the Canadian content of these parts and manufacturing costs were equivalent to sixty percent of the factory cost for cars and fifty percent of the factory cost for commercial vehicles. A twenty-five percent tariff was charged on major imported items, such as passenger car engines and automatic transmissions. Similarly, the finished vehicles and parts which were manufactured in Canada and imported by United States concerns were subject to roughly similar rates. It is not important to compare the tariff rates of the two countries; however, it is important to note that the rationale behind the application of a relatively high tariff rested on protecting Canada's domestic industry.

There is a double irony in this rationale as it was applied to the Canadian automobile industry by the Canadian government. In the first place, if one is inclined to be cynical one could ask just what industry there was to protect once Colonel MacLaughlin allied his firm to the United States-based General Motors in 1918. In the second place, the tariff has had the effect in many manufacturing industries -- and the automobile industry is no exception -- of

\[21\] C.E. Beigie, *op.cit.*, pp.11-20.

encouraging the type of branch plant operation of which Canadians have become ever more acutely aware.

The imposition of a tariff by the Canadian government prior to 1965 is evidence that the government was of the opinion that economic policies which effectively kept foreign automobiles out of Canada helped to achieve the objective of the growth and development of the automobile industry in Canada. The Automobile Agreement which has replaced the tariff structure has limited the Canadian government to the achievement of growth alone in the automobile industry in Canada in return for unlimited access to the United States market. The Automobile Agreement is a precedent which works against the implementation of wholly independent tax and monetary policies which are designed to achieve the national objective of the growth and development of all industry in Canada. As far as the consumer was concerned he knew that in Canada, prior to 1965, it cost him a great deal more money to buy a new car than it did for his American counterpart and most Canadians seemed to accept this fatalistically. Canadian consumers have since then discovered that a Canada-United States Automobile Agreement has made precious little difference in the higher cost of their new automobiles as compared to the prices they would pay for the car if they resided in the United States, since the Canadian government has restricted the duty-free importation of automobiles to manufacturers.\(^2\)

As for the automobile industry itself in Canada, two key features distinguish the industry prior to 1965: the Canadian industry

\(^2\)See the Appendix, for the complete text of the Agreement.
was attempting to offer a full range of models which not only eliminated cost reductions which might have been possible through a high volume specialization in a few models and created difficulty in establishing export markets since it was offering a more expensive replica of a product already being produced in the United States. Also, production inefficiency generally stood out as the main reason for the fact that vehicle prices were ten percent higher in Canada prior to 1965 since employees in the automobile industry in Canada were paid thirty percent less than the American counterparts and since the return to capital was no higher in Canada than in the United States.24

The Automobile Agreement has led to high volume specialization in the automobile industry in Canada, but not to the reduction of retail vehicle prices in Canada to the point that they are the same as the retail price of the same automobile in the United States.25 On the other hand, the integration of the two industries through the Automobile Agreement has brought about the demand for wage parity in both countries26 based on a common cost of living index. The Automobile Agreement is not in the long term political interest of Canada to the extent that it restricts the government from fulfilling economic policies which are designed to achieve distinctly Canadian wages.


25 See the statement of John Turner, Minister of Finance in Canada, House of Commons, Debates (Ottawa, April 26, 1972), p. 1646.

It is important to note the general political mood in Canada, as well as some specific events which occurred immediately prior to the signing of the Automobile Agreement in 1965. The general mood in Canada was one of disquiet since the first official notice of concern in Ottawa over the extent of United States ownership of industry in Canada became manifest in the preliminary report of the Royal Commission on Canada's Economic Prospects, published in 1956. The Commission was headed by Walter Gordon who was to implement some of the recommendations of the report as Minister of Finance in 1963.\textsuperscript{27} The government commissioned V.W. Bladen, an economist at the University of Toronto, to study the automobile industry in Canada. The Bladen Commission made its report in 1961.\textsuperscript{28}

For the purposes of this study it is sufficient to note that Bladen recommended that: Canadian content in automobiles should be expanded to include parts sold to foreign buyers (called extended content); replacement parts production in Canada should be encouraged; and all imported automotive items should have the same status instead of giving special treatment to specific items such as automatic transmissions.\textsuperscript{29} Bladen's cardinal concern simply was good cost performance for the automobile industry as it operated in Canada.

Rather than following the recommendations of the one-man

\textsuperscript{27}Canada, Report of the Royal Commission on Canada's Economic Prospects (Ottawa, 1956).


\textsuperscript{29}Ibid.
Bladen Commission, the government established its own program which consisted of two "duty remission" plans. A partial program was established in October 1962, and a full program was implemented, albeit for a short duration, in October 1963. In each case the plan provided that only a manufacturer of automobiles, and not a parts manufacturer, was eligible for the duty refund. Before going into the reasons why the second plan survived only for five months — until March, 1964 — it is necessary to compare the two plans to get an understanding of their effect on the industry as well as the direction the Canadian government hoped that the automobile industry would take, prior to the Automobile Agreement itself.

The Bladen Report and the Duty Remission Plans were similar in that they were designed to create a more efficient and effective industry by removing tariffs on imports by rewarding export performance. Also both schemes provided an incentive for replacement parts production. There were, however, differences between the two programs. Bladen's plan would have probably led to some degree of increased efficiency.

30 For the text of this plan see, Canada, Order in Council: Privy Council Office (Ottawa, P.C. 1962 - 1/1536).

31 For the text of this plan see, Canada, Order in Council: Privy Council Office (Ottawa, P.C. 1963 - 1/1544). The first duty remission plan implemented by the Canadian government required that a twenty-five percent duty be collected on automatic transmissions. This duty could, however, be reclaimed from the Canadian Customs Department as $1.00 was returned for each $1.00 increase in the Canadian content of parts. There were no United States objections (from the government nor the automobile industry) to this plan which was in effect from November, 1961, until the end of October, 1962. The second duty remission plan was essentially an extension of the first. The second plan was to be a full duty remission program which would have required a $1.00 refund on any new vehicle and original parts for $1.00 of Canadian content in parts and vehicle exports over and above the base level established during the first plan which, as has been mentioned, ran from November 1961 until the following October.
but not to integration, while the duty remission plans provided for cost reductions which were average cost reductions and which were based on tariff savings. Further, the Bladen recommendations would likely have had little effect on the Canada-United States automotive trade balance, while it is likely that the duty remission plans (especially the second one) would have decreased the Canadian deficit.

The second duty remission plan was short-lived as a firm in Wisconsin, the Modine Manufacturing Company, requested that countervailing duties be applied by the United States on those parts exported from Canada into the United States under the terms of section 303 of "the United States Custom Act, 1930". The Canadian government dropped the duty remission plan before the countervailing duties were applied and even before Modine brought its case before the courts. In fairness, however, it should be pointed out that the plan was becoming a critical issue in Canadian-American trade relations by March of 1964. The complaint of the Modine Company was the only one which became public although it seems safe to assume that there were other complaints from other American manufacturers since the United States government was apparently prepared to apply countervailing duties in response to the Canadian plan.

The favourable disposition of the United States government

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32 C.E. Beigie, op.cit., p. 39. It should be noted that this crucial question in Canada-United States trade relations, - whether making one country's tariffs on imports a function of export performance automatically effects the imposition of countervailing sanctions by the other country, - has never been fully tested in the courts of either country.
towards the complaints of its manufacturers against the Canadian

duty remission plans and its apparent preparedness to test the

complaint of the Modine Company in the courts with a view of

obtaining legal sanction for the application of countervailing

duties was probably the reason for the short life of the second

plan.\(^{33}\) Because of the negative response of the United States

government to the Canadian government's attempt to reduce the

Canadian deficit in automobile trade with the United States through

the means of duty remissions, the Canadian government felt it had

no alternative but to seek some other means favourable to the

American government which would achieve the effective reduction of

the Canadian deficit in automobile trade. Also, with the removal

of the second plan, Canada was again in the position of having to

reduce costs below United States costs to overcome the American tariff

and so open the North American market to the Canadian automobile

industry. It was with this in mind that Canada and the United States

negotiated a contract in their trade relations as these pertain to

the automobile industry which became known after 1965 as the Canada-

United States Automobile Agreement.

In early October, 1964, the first meetings took place between

the government and the automobile industry in Canada which culminated

in the Canadian proposals for the Automobile Agreement with the United

States. The cabinet minister most directly involved in the plan in

October and later in the negotiations with the United States was

C.M. Drury, then Minister of Industry. The public service negotiators

\(^{33}\) Thom Interview, August 3, 1971.
were headed by Simon Reisman, then Deputy Minister of the Department of Industry. The automobile industry was represented by the "big four" Canadian manufacturers, as well as the Automotive Parts Manufacturers Association. At this point in the formulation of the Agreement, the government requested secrecy from all involved.

Mr. Barr and Mr. Thom both indicated that there was no secrecy involved in the negotiations. It is my conclusion that they were referring to the negotiations with the United States and not to the negotiations which D.S. Wood, President of the Automotive Parts Manufacturers Association, mentioned in his memorandum to members of the Association. The meetings between the groups were extensive.

Mr. Wood indicated that:

At least fifteen meetings were held by the Automotive Parts Manufacturers Association with Mr. Drury and his staff prior to the announcement of the new U.S./Canada Automotive Agreement on January 15, 1965. Correspondence and telephone conversations were on a day to day basis.

An interview with D.C. Thom was most useful in filling in the background details which influenced Canadian thinking prior to January 15, 1965. Mr. Thom indicated that there were two key

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34 Thom Interview, August 3, 1971. Mr. Thom indicated that the key initiatives were taken by the Department of Industry although the departments of Finance, Trade and Commerce, and Labour, to a lesser extent, were also involved.

35 Evidence of the role of the parts manufacturers was obtained from the files of A.D. Hales M.P., in the form of a memorandum to the Automotive Parts Manufacturers Association, from D.S. Wood, the President of that Association. See D.S. Wood, Memorandum from the President to the Automotive Parts Manufacturers Association (Canada) (Toronto, May 14, 1965).

36 Ibid.

37 Ibid.
circumstances which influenced the Canadian desire to reach an agreement. Both the government and the industry wanted automobile production in Canada to become more efficient. After the call for countervailing duties by the Modine Company, the Canadian and United States governments were determined to arrive at some plan which would have allowed the greater efficiency which the duty remission plans (albeit on a limited scale) were also designed to accomplish as well as reducing the Canadian deficit in automobile trade. 38

The new plan also took into account the "Canadian Mood" 39 which Mr. Thom described as the first noticeable rumblings of concern by government over the extent and implications of United States ownership of Canadian industry. Since automobile manufacturing is completely foreign owned, the new plan was formulated with the idea of maintaining a specific degree of Canadian influence on the industry as a whole. In short, the new plan was concerned with effecting market efficiency, while maintaining Canadian influence since, as one respondent said, "Canada just doesn't have a car". 40 Through the Automobile Agreement the Canadian government hoped to increase efficiency in the automobile industry in Canada and to reduce the deficit in Canadian automobile trade with the United States by allowing Canadian automobile manufacturers to integrate their operations with their American parent firms subject to the fulfillment of the two provisions previously mentioned.

38 Thom Interview, August 3, 1971.
39 Ibid.
40 Barr Interview, August 3, 1971.
D.C. Thom indicated that the public service felt by the end of 1964 that increased efficiency in the Canadian automobile industry and a reduction in Canada's automotive trade deficit could best be achieved through partial integration of the Canadian and American industries and that if anticipated opposition to such a scheme was overcome in Cabinet, it would be desirable to avoid the double jeopardy of a full and potentially hostile debate before parliament which, conveniently for the government, was not in session at the time the treaty was signed.\(^\text{41}\)

The Automobile Agreement was implemented in 1965 by Order-in-Council. Mr. Thom indicated that the Liberal government had no special reason for using an Order-in-Council other than to say that this was "standard parliamentary procedure".\(^\text{42}\) It should be pointed out that this procedure allowed the Canadian government to implement the Agreement without reference to Parliament. Mr. Thom would not suggest that this disquiet over foreign ownership in Canada was not a factor in the decision to bring the Agreement into effect without a debate in Parliament.\(^\text{43}\) It is my conclusion, however, based on an interview with an Opposition member, that it was precisely because of the concern over foreign ownership that the government chose to use an Order-in-Council to bring the Automobile Agreement into effect. A.D. Wakes pointed out that he felt his charge that the Automobile Agreement

\(^{41}\) Thom Interview, August 3, 1971.

\(^{42}\) Ibid.

\(^{43}\) Ibid.
Agreement was a sell-out would have carried more weight if it had been brought out repeatedly during the course of a lengthy debate which a minority government would have difficulty regulating.  

The government anticipated the political reaction of the Opposition which was of a damning nature to say the least.  

The best way for a minority government to achieve a modified free trade arrangement and to survive opposition pressure, was to reduce to a minimum the length of time it is subjected to charges of selling the national economic birthright. An Order-in-Council was the pragmatic means by which the government achieved both its desired ends.  

There is one other detail concerning the negotiations between Canada and the United States which remains unresolved. It has been suggested that the United States agreed to the terms of the Automobile Agreement in return for the Canadian assurance that the recommendations made by a Royal Commission headed by Senator Gratton O’Leary regarding advertising in Time and Reader’s Digest magazines were consistent with the spirit of the Automobile Agreement.  

44 Hales Interview, Ottawa, February 18, 1971.  

45 Ibid., A.D. Hales maintains that the Automobile Agreement represents the sale of Canada’s "political birthright".  

not be implemented. Senator O'Leary's commission, which reported in 1961, recommended that the expenditures on advertising placed in the Canadian editions of publications such as *Time* and *Reader's Digest* should no longer be tax deductible. Henry R. Luce, the editor-in-chief of *Time*, contributed to this recommendation when he told the O'Leary Commission that in no way did he consider *Time* to be a Canadian magazine. In January, 1965, the Canadian Cabinet debated whether the recommendation should be implemented. According to one journalistic account, when the American Department of State heard of these deliberations, it put direct pressure on the Cabinet by stating that if the two publications were not exempt from tax in Canada "congressional approval of the Auto Pact would be placed in jeopardy". It is known that Mr. Luce and Dean Husk, who was United States Secretary of State at this time, were very close friends so the source of the pressure by the American government seems apparent.

The American pressure influenced the Cabinet to decide with C.M. Drury that *Time* and *Reader's Digest* should be exempt from the recommended advertising tax. Mr. Drury was being very pragmatic in arguing before the Cabinet for an exemption for the magazines since *Reader's Digest* is published in Mr. Drury's constituency of Westmount, and since he was the minister responsible for the Canadian half of the Automobile Agreement. The Cabinet decided with Mr. Drury that there would be no Automobile Agreement if it decided to tax the advertising

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in *Time* and *Reader's Digest*. Walter Gordon, who was Mr. Drury's cabinet colleague at the time of the Auto Pact negotiations between Canada and the United States, points out that "approval of the Automobile Agreement might have been jeopardized if a serious dispute had arisen with Washington over *Time*".\(^{49}\) In my interview with D.C. Thom, he categorically denied that the Auto Pact was part of a bargain which also involved the dropping of the O'Leary recommendations.\(^{50}\)

Although I thought at the time that Mr. Thom was rather too defensive in answering this question, I might have discounted these suggestions, since Thom was closely involved with the negotiations, if I had not received a diametrically opposite viewpoint from another source. Bert Barr of the Department of Industry, Trade and Commerce, said that such a trade off "not only makes sense, but also is very conceivable".\(^{51}\)

My conclusion is that while this trade off probably was not mentioned directly over the bargaining table, it is more than likely that the Canadians were made aware informally that the Americans would be in a better frame of mind to negotiate the Automobile Agreement if the O'Leary recommendations were shelved. It was against this background that the Canada-United States Automobile Agreement was arranged through formal intergovernmental discussions and then jointly announced, as has been mentioned above, on January 15, 1965.

\(^{49}\)W.L. Gordon, *op.cit.* Paul Martin and Maurice Sauve supported Mr. Drury's position in Cabinet discussions on this matter.

\(^{50}\)Thom Interview, August 3, 1971.

\(^{51}\)Barr Interview, August 3, 1971.
The Canadian government hoped to achieve several immediate effects by negotiating and ratifying the Automobile Agreement. The first of these was, of course, to eliminate the United States tariff on Canadian automotive exports, as well as the Canadian rebates which had previously brought about the threat of American countervailing duties. Further, the Canadian government saw the Agreement as the first step toward the removal of various structural barriers which had hindered efficient production. The government felt that the Agreement would eliminate the barriers of large inventories, unreliable supply, and result in larger production runs of fewer models so that the industry could then achieve economies of scale. A long term effect which the government hoped to achieve through the Agreement was the achievement of what has been called a "fair and equitable share" of the North American automotive market. Although there are several interpretations as to what exactly the above phrase means, D.C. Thom indicated that the government was concerned in this instance with the continuing growth in production of the automobile industry in Canada. The immediate effects were achieved as the Agreement went into effect and growth in production has occurred but not without substantial repercussions in Canada. Production has grown for two main reasons. First, the Canadian automobile industry now has unlimited access to the American market, without duty being charged. Second, in several cases the automobile manufacturers in Canada now produce for a

52 Thom Interview, August 3, 1971.
53 Ibid.
North American market. For example, American Motors produces its Hornet model for eastern Canada and the eastern United States at Brampton, Ontario. The Hornet is also manufactured at Kenosha, Wisconsin, for customers in western Canada and the western United States.

Political opposition to the Automobile Agreement at the time it was announced was limited indeed for two reasons. One of these has already been mentioned, namely, that in bringing the Agreement into effect by Order-in-Council the government was able to avoid any debate in Parliament over the merits or demerits of the Agreement. The second reason for the lack of political opposition was that the initial reaction to the potential economic benefits was favourable. The *Globe and Mail* editorialized that the Agreement "offers important benefits to the people of both countries and to the automobile industries of both countries".\(^54\) Similarly, the *Toronto Daily Star* stated that the "benefits of the Agreement are clear and obvious to Ottawa".\(^55\) The *Montreal Gazette* concurred that the "agreement allows for new growth",\(^56\) and the *Winnipeg Free Press* expressed the hope that the benefits which accrued to the manufacturers because of the Agreement would be "passed on to the consumer".\(^57\)

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In light of this response favouring the economic benefits of the Agreement, it is perhaps not surprising that the Conservative critic, A.D. Hales' charged before Parliament that the Agreement represented "a complete sell out" by the government caused so little interest. Reid Scott M.P., the New Democratic Party critic of the Agreement prior to 1968, did not object to the Agreement because of its integrative character, as one might have expected from an N.D.P. critic, but rather because the Agreement was implemented only with "the concurrence of parliament" rather than through a full debate before parliament.

The government has also had to deal with some problems as a result of this rationalization process. The government set up a program of Transitional Adjustment Benefits (T.A.B.) in August, 1965, to assist manufacturers and employees while the rationalization process was continuing. The automobile manufacturers and parts producers used the T.A.B. program to retool, and in some cases redesign, their production processes. Government benefits were also available to workers who had to move their homes or who were otherwise disrupted as a result of the rationalization process carried on after the Automobile Agreement went into effect. From 1965 until June, 1971, the Canadian government had paid out over $85 million in Transitional Adjustment Benefits to manufacturers who have altered their production and to

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families who have altered their lives as a result of the Agreement. 60

Conservative critic A.D. Hales supported the announcement of the T.A.B. benefits and indicated that C.M. Drury, the Minister of Industry, had no choice but to introduce such a program since the Automobile Agreement had put Canadian parts manufacturers "in such a terrible position that something had to be done to help them survive". 61 The N.D.P. critic, Reid Scott, supported the concept of the T.A.B. program because it offered financial support to automotive workers who were dislocated as a result of the Agreement. Nevertheless Mr. Scott criticized the plan for two reasons. First of all, he said that the automotive worker should not be expected to contribute "the major portion of the cost" 62 of the plan. This position is not surprising considering that labour unions are an important source of funds to the New Democratic Party. Second, Mr. Scott complained that the benefits paid to Canadian workers were not equivalent to those being paid to American workers who were dislocated by the Agreement. 63 This position is interesting, not because the N.D.P. critic was demanding increased benefits for Canadian workers, but rather because it does not question the political implications effected by the integrative character of the Automobile Agreement. 64


62 Ibid., p. 2911.

63 Ibid.
As the Canadian government must have expected, the big four of the automobile industry set up their production operations on a North American basis. This more integrated operation dulls further what little distinction there had been between the Canadian and American automobile industries and encourages more centralized decision-making from the United States head offices of the automobile manufacturers. The Automobile Agreement indicates that the Canadian government sees the branch plant operations of United States manufacturers as the best means of automobile production in Canada. The Automobile Agreement promotes further integration of the Canadian and American automobile industries and so encourages overall production decisions affecting the automobile industry in Canada to be made in head offices in the United States.

In fact, without the production safeguards which Canada added to the Agreement, it is conceivable that all of Canada's automobile requirements would be met by production carried on solely in the United States. The government has, through a political decision, elected not only to perpetuate the branch plant production of automobiles in this country, but also to allow the automobile manufacturers to refine these operations to their advantage through centralized decision-making, which is subject only to indirect Canadian political influence. For example, as a result of the Agreement, the Chrysler Corporation now manufacturers its Dodge Dart in Canada according to the North American demand for this particular model. If the American sales of the Dart were to fall, the evidence suggests that Chrysler could cut back on the production of these cars regardless
of the Canadian demand for them and of the Canadian workers employed in making them. So long as Chrysler continues to fulfill the overall terms of the Agreement, the Canadian government is limited to requesting that Chrysler's head office in the United States reconsider such a decision. It is in this way that the Automobile Agreement can restrict the Canadian government's influence on the automobile industry in this country.

If one assumes that the economic interest of the automobile industry is always, or usually, in the best political interest of the country there would be no dispute over the value of the Automobile Agreement in Canada. We have already seen, however, that the economic interests of the automobile industry are very often not in the political interest of the country, nor in the interest of the development of a far-reaching industrial strategy of this country. The Automobile Agreement, therefore, denies the validity of the pursuit by the Canadian government of the kind of political interests and industrial strategy which I feel will promote the political and economic integrity of Canada in the future.
CHAPTER II

THE POLITICAL INPUT OF THE AUTOMOBILE INDUSTRY
TO THE AUTOMOBILE AGREEMENT

This section is devoted to an examination of the Canadian automobile industry's assessment of the Automobile Agreement both before and after the signing of the Agreement and the input the industry has had with regard to the Canadian half of the Agreement.\(^1\) For the purpose of this study, the "big four" auto manufacturers, the parts manufacturing industry, and the automobile labour union, (the United Auto Workers) comprise the automobile industry in Canada. I will discuss the role of these three main segments of the industry in that order.

As the result of my investigation there is no doubt that the Canadian automobile manufacturers - General Motors, Ford, Chrysler, and American Motors - were the strongest influence which encouraged the Canadian and United States governments to negotiate the Automobile Agreement. The evidence supporting this notion is substantial, and it should be stated at the outset that the manufacturers' political influence must not be under-rated. However, because that influence has been so great the Canadian government finds itself in a position

\(^1\) Interviews were conducted with representatives of General Motors of Canada and Ford of Canada. See Beechey Interview, July 8, 1971, and Shelley Interview, July 5, 1971.
which is less than advantageous. The government, as a result of the Agreement, has given up its direct influence on the automobile industry in Canada by agreeing to a North American basis of automobile production.

The Agreement ensures a certain level of automobile production in Canada (based on the 1964 model year) and also invites further integration of the Canadian and American automobile industries. One result of this increased integration, as described in Chapter I, is that the locus of decision-making for the automobile industry has shifted to head offices in the United States. Therefore, decisions with regard to the operation of the automobile industry in this country are now made in the United States. The Canadian government can only effectively influence the automobile industry in this country by dealing with foreign executives in a foreign country. The United States government, on the other hand, can directly influence the automobile industry in that country since the locus of decision-making for that industry rests effectively in the United States.

The automobile industry and the government both see the Automobile Agreement as a vehicle to achieve increased efficiency and rationalization in the manufacture of automobiles in Canada. Indeed, Joel Shelley of Ford of Canada, Hugh Beechey of General Motors of Canada and Bert Barr of the Department of Industry, Trade and Commerce used exactly the same phrase when they declared that the agreement had successfully overcome the problem of "short production runs". Similarly, Mr. Beechey and D.C. Thom, of the

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2 cf. Barr Interview, August 3, 1971; Shelley Interview, July 5, 1971; and Beechey Interview, July 8, 1971.
Department of Finance, used exactly the same phrase when describing another hoped for effect of the Agreement, namely that the automobile industry in Canada would cease to be a "costly duplication in miniature of its counterpart in the United States". To some extent this latter objective has also been realized. I cite these examples of similar phraseology which portray the common thinking of the individuals mentioned above, to indicate that there was and is more than chance agreement among the government and industry regarding the general accomplishment of the Automobile Agreement. The terms efficiency and rationalization are generally used to define the objectives and working-nature of the Agreement and the four men mentioned above not only agreed on the use of these terms in describing the Agreement, but also defined them in the same way.

The manufacturers have a further indirect, though substantial, influence which the government could not ignore before 1964 anymore than it can ignore that influence now. The Ford Motor Company of Canada paid $134 million in sales and income taxes in 1968, and produced at the same time a $50.2 million profit after taxes. It should be remembered that the General Motors operation in Canada is roughly two-fifths as large again compared to Ford using the Letters of Undertaking as a measure. These two giants combined still leave one-quarter of the automobile market in Canada to Chrysler, American Motors and others, such as Volkswagen and Toyota.

3cf. Thom Interview, August 3, 1971; and Beechey Interview, July 8, 1971.

The industry also has a further influence. The automobile industry in Canada exported, in the first nine months of 1970, $2.6 billion worth of finished products, as well as engines and parts. That total seems to be increasing yearly although complete recent statistics were not available at the time of writing. The automobile industry as a whole was Canada’s largest exporter in 1970. It seems obvious then that the automobile industry, given its economic clout, would be misguided not to try to influence the government to negotiate an Agreement which would be beneficial to the industry and to the government in terms of immediate export and balance of payments statistics but at the expense of Canadian political control over decision-making within the industry and long term options affecting the industry.

By the same token, the Canadian government, dependent as it is on exports, and realizing the size of tax revenue it collects from the industry, would be foolish not to listen to the representations of the automobile industry. The Automobile Agreement more than satisfied the manufacturers. As the past president of Ford of Canada, K.E. Scott, stated on February 2, 1969 to the Canadian Club of Ottawa: "... we strongly endorse the autopact as a model for government-industry collaboration and we advocate for it a permanent place in the fabric of our industry". Roy Bennett, who


6K.E. Scott, A Speech to the Canadian Club (Ottawa, February 2, 1969).
succeeded Mr. Scott in November, 1970, and who was heavily involved in the Automobile Agreement, agrees: "It has been a very healthy thing for all the companies and the economy as a whole".

It would be unlikely indeed that the manufacturers could be unhappy with the Agreement in view of the fact that the mutual objectives, (which they hold with the government), of "efficiency" and "rationalization" have been partially realized through the Agreement. Certainly production runs in Canada are longer, thus meeting the requirement given above since production decisions are now geared to North American needs. This is evidenced by the fact that sixty percent of the vehicles produced in Canada in 1968 were exported to the United States as compared to seven percent in 1964. During 1968 vehicle imports from the United States accounted for forty percent of the Canadian market as compared to three percent in 1964.

At the same time the Agreement has permitted rationalization within each company. Mr. Shelley pointed out that Ford now produces its model line Maverick for "eastern North America" in Canada, while the needs of "western North America" are met at Ford's plant in Michigan. Obviously there is little chance for duplication to

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7 Joel Shelley confirmed that Mr. Bennett was the key spokesman for Ford of Canada to the Canadian government while the latter was formulating its position on the proposed policy for the automobile industry. Shelley Interview, July 5, 1971.


9 C.E. Beigie, op.cit., pp. 77-96.

10 Shelley Interview, July 5, 1971.
occur in Canada, much less North America, using this kind of production scheme. This particular scheme is not general to the industry but it is an example of the concrete application of the definition and the kind of rationalization which the industry and the government hoped to achieve through the Agreement. There is strong evidence that the influence of the automobile industry on the government prior to the signing of the Agreement was pervasive.

Officers of the automobile industry such as Roy Bennett, President of Ford of Canada, and D.S. Wood, President of the Automotive Parts Manufacturers Association of Canada and government officials such as Mr. Thom and Mr. Barr, are in agreement not only in what they see as the objectives of the Agreement, but also in the terms by which they describe those objectives.\textsuperscript{11}

That the automobile manufacturers in Canada and the United States have been silent during the discussions which have taken place between Canadian and American government officials with regard to changing the Agreement, indicates to me that the automobile industry has the kind of trading arrangement that it wants. There is no doubt that the government was more than aware of the industry's original market power, the industry's power over prices paid and charged, as well as the ability to obtain more than normal profits. Mr. Thom made this amply clear when he indicated that General Motors set the price of its vehicles last, to which the other manufacturers adjust, in order

\textsuperscript{11} cf. D.S. Wood, op.cit., (May 14, 1965); "Report on Business", Toronto Globe and Mail, November 1970; Thom Interview, August 3, 1971; and Barr Interview, August 3, 1971. D.S. Wood, for example pointed out that conversations by telephone and letter between the automobile industry and the government were on a day to day basis from October 1964 through December 1964.
to keep American Motors in business and thereby avoid any government scrutiny under anti-trust provisions in the United States or through the Combines Investigation Act in Canada. With this kind of automobile industry power in mind, the government decided that duty free status would apply only to Canadian manufacturers who met the sales to production ratio and Canadian value-added provisions. These "safeguards", as they have been called, were and are designed to regulate the market power which the industry has.

The manufacturers for their part have not criticized the Canadian government's attempt to regulate vehicle production and employment related to that production in this country. Mr. Bennett, President of Ford of Canada, states flatly that the desire for changes in the Automobile Agreement "does not have its origins in automobile industries on either side of the border which are happy with the results of the Agreement".

The automobile industry is very happy indeed. The Agreement it influenced, notwithstanding the safeguards which the Canadian government included, has gone a long way toward helping to achieve exactly those goals of rationalization and efficiency which the automobile industry in this country considers vital. These goals are vital to the industry simply because they allow the manufacturers to produce automobiles more cheaply in this country and so make a larger profit.

To ensure the continued production of automobiles in Canada, the government restricted the duty free importation of automobiles to manufacturers

12 Thom Interview, August 3, 1971.
who met specific production standards (i.e., the production safeguards) and thereby made concessions which may not be in this country's political interest.

The government has conceded its independent tax policy on the importation of automobiles to this country and the revenue that policy generated in order to underwrite the existence of automobile manufacturers in Canada on the questionable assumption that the objectives of these manufacturers will naturally be coincident with Canadian national objectives.

The government, by negotiating the Automobile Agreement, has facilitated the integration of the Canadian automobile industry with its United States counterpart to the economic benefit of the industry in Canada. As the process of integration is carried out, however, there is a tendency for the operation of the Canadian subsidiary to become further subordinated to that of its American parent with the net result being that the United States government is able to exercise political control over the actions of the automobile companies to the extent that they operate within a continental framework. The integration of the Canada and American economies in the automobile industry clearly involves a threat to Canada's political sovereignty as the distinction between the Canadian subsidiary operation and the United States parent operation dulls and as the locus of decision-making for a North American industry rests almost exclusively with the parent firm in the United States.

The existence of the Automobile Agreement did not inhibit the United States government from extending the benefits of the DISC program to the automobile manufacturers in that country. Similarly
Ford and Chrysler showed no reluctance to take advantage of the DISC scheme despite the assertion of the Canadian Minister of Industry, Trade and Commerce that by doing so these companies had violated the Automobile Agreement.\textsuperscript{14}

The United States government is able to offer tax benefits to its resident automobile manufacturers with the knowledge that these benefits will not only be attractive to the latter and vicariously to the American economy, but also that these corporate citizens are more likely to make use of these tax benefits since a greater share of the decision-making for the automobile industry has shifted to the United States because of the integration which has occurred in the North American automobile industry as a result of the Agreement.

The changes in the operation of Ford of Canada, which have occurred since the Automobile Agreement came into effect, illustrate the nature of the integration which has developed generally in the automobile industry and the vicarious political threat posed to Canadian political decision-making that integration in the industry has brought about.\textsuperscript{15}

Since the inception of the Automobile Agreement, the managers of Ford of Canada's assembly plants now meet production standards set in the United States where formerly they reported to the senior executive in Canada.\textsuperscript{16} The result is that the operation of the

\textsuperscript{14}A more complete description of the impact of the DISC program will occur in the next two chapters.

\textsuperscript{15}I.A. Litvak, \textit{op.cit.}, pp. 67-70.

\textsuperscript{16}\textit{Ibid.}, p. 67.
industry in Canada is further truncated. Purchasing for Ford, since the Agreement, has been carried out on a North American basis and some Canadian executives involved in this field now perform their duties in Michigan rather than Ontario. Furthermore, virtually all exporting is now handled by Ford's parent company and since 1965 all foreign business is referred to it. All research and development done by Ford is centred in the United States as a result of the Agreement and Canadian tax and government incentives have not brought about a change in this policy. Ford of Canada still recruits and promotes its own managers, but due to the closer ties between subsidiary and parent as a result of the Agreement, Ford-U.S. now scrutinizes senior Canadian appointments and Ford of Canada executives who are in line for the most important Canadian management positions are acquainted with Ford's worldwide operations.

From the above discussion, it is obvious that the most important decisions for the operation of Ford in Canada are made in the United States and that this is a direct result of the integration brought about by the Automobile Agreement. The Canadian government has lessened substantially its ability to exercise political control over

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17I.A. Litvak, op.cit., p. 69.

18Ibid. By 1970 fifty Canadians were employed in research and development activity but at Ford's plant in Dearborn, Michigan. W.D. Compton, executive director of Ford's research staff at Dearborn has said that company's research areas since 1965 have become too interdependent to be separated geographically.

19Ibid.

20Ibid.
the actions of an automobile company operating on a continental basis where decisions made by that company eminate almost completely from a head office in the United States.

Thus, in this important section of the Canadian economy, decisions concerning what is to be produced, where it is to be sold, from whom supplies are to be purchased and what funds are to be transferred, as well as charges for management, research, advertising services and the like, are made outside Canada according to the global strategy of foreign-based automobile manufacturers. Therefore, while the country is richer on the short term basis, the Canadian economy is less flexible in the long run and the instruments of public policy are constrained by this kind of formal commitment which arises from a bilateral arrangement, such as the Automobile Agreement, with the government of the United States.

The Canadian automobile parts manufacturing industry also had a direct input to government in the formulation stages of the Automobile Agreement between October, 1964, and January, 1965. Their primary contact in Ottawa was, again, C.M. Drury, then Minister of Industry. The parts manufacturers, unlike the "big four" manufacturers, were unhappy with the proposed plan of October and are even more so seven years after the Automobile Agreement was signed.

The parts manufacturers' original complaint was that the proposed Agreement provided almost no safeguards for their industry and instead "seemed to be directed mainly at expanding motor vehicle production". 22

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22 Ibid.
The parts manufacturers appear to have been exactly right. They insisted that Canadian content be fundamental in the plan and that this content be maintained on a percentage basis similar to the sales to production ratio provided for the automobile manufacturers. The government did agree to require that "Canadian value-added" be fundamental to the final Agreement which it would sign with the United States. However, the parts manufacturers could not persuade the government that the safeguards of the Canadian content should be maintained on a percentage basis. Rather, this safeguard required only that the Canadian content in motor vehicle production be "no less than was contained in motor vehicle production in the model year 1964". The parts manufacturers also managed to persuade the government that aftermarket parts should be excluded from the Agreement.

The government was warned that the provisions mentioned above would make it virtually impossible for smaller parts producers to compete with their American counterparts while it would be difficult even for the large Canadian manufacturer. J.D. Loveridge and H.A. Wilson, executives of the Ingersoll Tool Company which manufactures automotive parts, warned Mr. Drury in March, 1965, that in order to survive, automotive parts manufacturers have to build up a personal relationship with the automobile producers which would be destroyed if Canadian content only were maintained. Mr. Loveridge told Mr. Drury that ultimately Canadian parts manufacturers would be placed in the position of "dealing with complete and utter

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strangers", who were headquartered in Detroit (in this particular case) and who generally show a marked bias in favour of dealing with suppliers in their own country with whom they are familiar.

Duplate Canada Limited, for example, found itself in exactly this position as the Ford plant in Detroit, Michigan decided in January 1972 that both the American Ford firm and its Windsor, Ontario subsidiary would purchase the parts which Duplate Canada Limited had previously supplied to the Windsor operation from firms in the United States. The result was that Duplate Canada Limited of Windsor, Ontario, went out of business on January 28, 1972 and its two hundred and ten employees lost their jobs.

Former Ford president, Karl Scott, claimed that the Canadian content safeguard would provide Canadian parts suppliers with the opportunity to compete "for orders to supply every Ford plant in North America". Mr. Scott's remarks notwithstanding, the government, is well aware that even with the Canadian content safeguard, the parts producers in this country are severely hampered by the Automobile Agreement. D.C. Thom is fully aware that "Americans buy

24 J.D. Loveridge, Memorandum to the Honourable C.M. Drury (March 3, 1965). A copy of this memorandum was also sent to A.D. Hales M.P., who used this information in his Remarks to the Progressive Conservative Caucus Committee on Industry (Ottawa, March 26, 1965).


26 Ibid.

U.S. parts", and this to such an extent that vehicle manufacturers in the United States will try to supply all their own parts "in house". Mr. Thom also pointed out that the vehicle manufacturers, because of their original market power, can buy parts and keep minimum inventories, while at the same time demanding and receiving complete reliability of supply.

Arnold Wallace, who is Vice-President of Earl Robinson Automotive Parts Limited of Oshawa, and who has been in the parts manufacturing and supply business for twenty years, says that not only have Canadian parts producers been hard pressed to compete with their American rivals in the United States, but also that the market in Canada for automotive parts is becoming smaller and smaller. For example, from 1965 to 1968 the Canadian deficit in trade with the United States in parts and accessories averaged $680 million per year. From 1961 to 1964 the average Canadian deficit in trade with the United States in parts and accessories averaged $460 million per year. Both these factors Mr. Wallace attributes to the Automobile Agreement in its present form which requires only a base level of Canadian content.

Mr. Wallace explained that for the last two years the "big four" car manufacturers have exceeded this basic level with the result...

28 Thom Interview, August 3, 1971.

29 Interview with A.J. Wallace, Vice-President of Earl Robinson Automotive Parts Limited, August 12, 1971.

30 C.E. Beigie, op.cit., p. 87.

31 Ibid., p. 71.
that they are "free to order virtually all of their additional requirements in either country without incurring customs duties".\textsuperscript{32} He added that the "big four" automobile assemblers can now satisfy the Canadian content safeguard simply through their payrolls and overhead costs. The net result, of course, is that Canadian vehicle manufacturers will not have to buy any parts in Canada when their parent firms can send these into Canada while meeting, in full, the requirements of the Agreement.

Ford has now moved all its purchasing for engines and transmissions from Oakville, Ontario to Dearborn, Michigan. There is little chance, if the Duplate case is taken as an analogous example, that a Canadian manufacturer will be able to supply engines or transmissions to Ford of Canada or to Ford of the United States, since the personal relationship which the Canadian manufacturer utilizes is gone and since, as Mr. Thom pointed out, the Americans purchase domestically whenever they can.\textsuperscript{33} The American manufacturers tend to buy domestically for two reasons. First of all, the Americans trust and will therefore buy a part they require which is made in the United States, rather than a comparable part made elsewhere. The second reason for this habit, which is more tangible although not necessarily more important than the reason just mentioned, is that in many cases the firms producing these parts are subsidiaries of the automobile manufacturers or have exclusive contracts to produce parts for the

\textsuperscript{32}Wallace Interview, August 12, 1971.

\textsuperscript{33}Thom Interview, August 3, 1971.
automobile manufacturers. D.S. Wood of the Automotive Parts manufacturers Association (Canada), noted in November, 1971 that "our members have to sell all their parts - both for local or United States consumption - to the United States headquarters of the Big Four. It's no good just beating the prices of United States competitors by 1 or 2 percent." 35

The Canadian parts manufacturers appear to be the only organized group dissatisfied with the Automobile Agreement. They do not for one moment say that the Agreement has not been lived up to fully on both sides of the border. They do say that the Agreement simply does not give them a chance. It was Mr. Wallace who put it best when he said:

To compete with American parts producers, we must be prepared to do so on their home grounds, since, unlike the vehicle manufacturers, we do not receive a proportion of the annual increment in the North American market. Further to get contracts we must undercut U.S. prices by about 5 percent. The Automobile Agreement has left our industry stranded. 36

It is impossible to ascertain whether it was lack of foresight or whether the parts manufacturers were sacrificed by the Canadian government to obtain the Agreement in the first place, which has left parts manufacturers in the position described above. Officials both in the automobile industry and in the government agreed that foresight might have been lacking as the Agreement

34 Thom Interview, August 3, 1971.


36 Wallace Interview, August 12, 1971.
affects parts manufacturers and, interestingly enough, no one denied that these same parts manufacturers were not originally sacrificed either. As I have mentioned above, the government has provided Transitional Adjustment Benefits for the parts manufacturers but these have been of little value in achieving the direct contact with the automobile manufacturers which is necessary to the parts producers to sell their products or in overcoming the tendency of American automobile manufacturers to buy their parts in the United States. In any event, a result of the Agreement is that a medium size plant, Ingersoll Machine and Tool, has no work for 800 men. 37

A.D. Hales cited the Ingersoll case to the Conservative caucus and to the House of Commons because he wanted to point out that there were manufacturing concerns in Canada which were being adversely effected by the Automobile Agreement, and because he knew that the Minister responsible, Mr. Drury, was aware of this particular case. 38 Mr. Hales pointed out that he has always felt that the Agreement represented a step toward the loss of Canada's political birthright; but since it appeared to him that the automobile manufacturers in Canada would benefit as a result of the Agreement, he decided to focus his criticism of the Agreement on the distress of the parts manufacturer and to place the political responsibility for their distress on the

37 A.D. Hales, Remarks to the Progressive Conservative Caucus Committee on Industry (Ottawa, March 26, 1965). The Duplate Canada Ltd. case is a more up to date example of the same problem. In this instance, as cited above, 210 men lost their jobs in January, 1972.

Minister of Industry, Mr. Drury. The role of the automobile workers union only became apparent after the signing of the Agreement in 1965. Not surprisingly perhaps, the United Auto Workers had no input into the negotiations in Ottawa beyond being informed that the government was attempting to reach an agreement with the United States government to expand the automobile industry in Canada. The U.A.W. in Canada and the United States supported the proposed Canada-United States negotiations and has supported the Agreement since it came into effect up to the present. The fact that the automobile union supports the pact is not difficult to understand. Obviously, the union depends on the manufacturer to require labour to produce automobiles and since the Agreement was designed to allow automobile manufacturers in Canada to be more efficient, the union saw itself as bound to benefit because of this, in the long run. Although the union supports the Agreement, the union interpretation of it has caused the Canadian government to have some serious second thoughts about the secondary implications of bilateral trade arrangements entered into with the United States.

The former president of the U.A.W., Walter Reuther, presumably caught the Canadian government off guard when in May, 1967, he demanded

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39 Hales Interview, February 18, 1971.

40 Thom Interview, August 3, 1971.


42 Thom Interview, August 3, 1971.
that the Canadian U.A.W. member working in subsidiary automobile
plants in Canada, which had American parents, should be paid the
same wage as his United States counterpart. 43

Mr. Reuther's statement also indicates a change in the
structure of the international union. Just as the operation of the
automobile manufacturers has become more integrated, so has the
structure of the international U.A.W. become more integrated since
the Automobile Agreement came into effect in 1965. Implicit in
Mr. Reuther's statement is the assumption that the desires of the
Canadian and United States membership are coincident and more important
that these desires will be decided upon in the United States headquarters
of the union.

C.M. Drury expressed both alarm and opposition to the U.A.W.
proposal which he felt could have the effect of forcing up all wages
in Canada. Drury agreed with the business community which argued that
only by paying lower wages, compared to those paid in the United States,
can a Canadian industry compete with an American counterpart. It was
pointed out by the Canadian business community that the average
American factory worker earns about thirty percent more than a
Canadian doing the same job, but that on the other hand the Canadian
worker produces thirty percent less per hour because the Canadian
industry serves a smaller market and gets less efficiency due to
short production runs. 44

It is not surprising that Mr. Reuther gave this Canadian


44 Ibid.
argument short shrift since the Canadian government and automobile manufacturing industry negotiated the Automobile Agreement to overcome this latter problem. Indeed the government and the manufacturers agreed in 1965 and agree now that this very problem has been largely overcome as will be pointed out below. It is therefore, not any more surprising that Mr. Drury only threatened to take retaliatory measures against Mr. Reuther's demand for wage parity. It is difficult to see if the government could have taken action against the U.A.W.'s rather logical position despite the economic implications this had for other industries operating in Canada.

The actual union-manufacturers agreement of 1967 provided for base wage parity, but the cost-of-living escalator clauses that formed part of the agreement, which in large measure produced an "out" for the government, have subsequently produced an overall disparity in wages. Leonard Woodcock pointed out that in the next round of bargaining, which is due in 1973, the U.A.W. will push for complete wage parity with the cost-of-living escalator based on the United States cost-of-living index, or a weighted composite index that combines both United States and Canadian price changes. Obviously, Mr. Woodcock sees the Automobile Agreement as having brought about an integrated North American manufacturing industry which should pay its workers uniform wages. He claims that overall wage parity can only be achieved through the use of a common index so as "to avoid continued strife and turmoil over wage disparities between the

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To the government's great distress, wages in the automobile industry are now related, though not yet identical, to United States wages in the same industry rather than to the general wage level in Canada as a result of the Automobile Agreement. The government quarrels with the logic of the U.A.W., in part, because it does not want this unique situation to be applied to other industries, such as textiles, where there are branch plant manufacturers and international unions on the Canadian side of the border. Also, the government wants to avoid "importing" United States inflation by using the United States cost-of-living index to determine Canadian wage scales.

At the same time, the government recognizes the aspirations of the Canadian members of the U.A.W. D.C. Thom said, "the issue of wage parity is not a zero sum game and I am torn when I consider how this particular issue can be handled". Mr. Thom explained that by "non zero sum" he meant that he did not think that every time the American automobile worker got a raise that his Canadian counterpart would necessarily get an equivalent raise even though each man was doing the same job. The government seems inclined to be dissatisfied with the position taken by a union which supports the Automobile Agreement as designed and implemented in the first instance by the government itself.

47 Thom Interview, August 3, 1971.
The Automobile Agreement has given the international automobile workers union increased leverage with which to put substantial political pressure on the government. The U.A.W. has become a more integrated operation as a result of the Agreement and has bargained for wage parity for Canadian automobile workers based on a cost-of-living which is common to its Canadian and American workers. Indeed collective bargaining was initiated on a continental basis in 1967 with the signing of the U.A.W.-Chrysler contract.

As a result of the integration of the U.A.W. which was facilitated by the Agreement, and which has brought about the increased dominance of the United States U.A.W. over the Canadian U.A.W., the union has put political pressure on the Canadian government in that the government is restrained from devising policies designed to achieve Canadian political interests. The union objective of Canada-United States wage parity denies the possibility of a distinctly Canadian wage in the automobile industry in this country which is based on the Canadian cost-of-living index. The United States leadership has become more predominant over its Canadian counterpart, as North American bargaining has developed as a result of the Agreement. North American bargaining detracts from the Canadian identity which has been founded on east-west lines of communication. For example, the United States leaders of the U.A.W. considered the request of its members at Ste. Therese, Quebec to

48 I.A. Litvak, op.cit., p. 69.
use French as a working language in the plant expendable in its settlement with General Motors. There is a further important consequence of the Automobile Agreement for Canadian U.A.W. union members. The Automobile Agreement, which moves toward free trade in automobiles in North America, gives added authority to the American head of an American-based international union which has more than 100,000 Canadian members. The Canadian automobile workers naturally support an integrated U.A.W. to negotiate with a substantially integrated industry, but even this has its costs. The Canadian union member has found that his American union leaders tend to have only a peripheral interest in uniquely Canadian union demands.

Leonard Woodcock, who succeeded Walter Reuther, was rather blunt about this latter point when he stated in April, 1971 that the demand for wage parity in 1967 was made "on the grounds of equity and also, frankly, to protect the jobs of our U.S. members". The reaction of Canadian U.A.W. members to Mr. Woodcock's statement was equally blunt. Larry Haiven, a Canadian U.A.W. member, said that

49 Walter Reuther, The Wall Street Journal, June 2, 1967. The U.A.W. membership at the Ste. Therese plant considered the use of the French language in their plant to be an important issue, but since their contract was negotiated by the United States leadership of the U.A.W. this request did not receive the understanding nor sympathy it might have if the Canadian branch of the U.A.W. had been negotiating independently with General Motors. The integration of the international U.A.W., brought about by the Automobile Agreement, contributed directly to the expendability of this uniquely Canadian request.

50 Ibid.

Mr. Woodcock is obliged to favour the Agreement or "he'll be out of a job and he knows it", and that "as long as Canadian auto workers are in the U.A.W. they can expect to be sold out". Speaking as the chairman of a group called "Canadians to Abolish U.A.W. Autopact Committee", Mr. Haiven indicated the need for an all-Canadian union and stated that this could only be achieved by ending joint United States-Canadian contract negotiations immediately and by demanding that "the federal government give notice it will end its part in the pact".

It is too early to tell how much of an impact Mr. Haiven's group will have since their position goes contrary to the policy of the United States leadership of their union and to the policy of the Canadian government, both of which want to retain the Agreement, although for very different reasons. It is clear, however, that some Canadian automobile workers are dissatisfied with their government which negotiated the Agreement and with the dominant position that the American leadership of the U.A.W. has assumed as a result of the integration brought about within the union by the Agreement.

The Canadian government is restrained from utilizing Canada's human resources in the automobile industry in this country to their full potential when, as a result of the Automobile Agreement, the leadership of the integrated U.A.W. announces that it is primarily interested in the jobs of its American membership. Thus, the political

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53 Ibid.
pressure applied to the Canadian government by the automobile workers union is substantial, but at the same time, such pressure was invited and therefore probably inevitable, due to the integrative effect which the Agreement has had on the automobile industry as a whole, and indeed on the international U.A.W.
This chapter deals with the "National Political Assessments of the Automobile Agreement". The objective of this chapter will be to examine the contrasting positions of the United States and Canadian governments regarding the Agreement. The term United States "government" in this chapter refers to various American senators and some executive officials of the Johnson and Nixon administrations. Similarly the term "government" as it applies to Canada is used to describe the Liberal governments of Prime Ministers Pearson and Trudeau, as well as the public service, particularly the Departments of Finance, and Industry, Trade and Commerce.

The American government has been opposed to the Automobile Agreement since it has become apparent to them that the production safeguards Canada wanted as part of the Agreement were to be of a permanent, rather than a temporary nature. It now appears that the United States government accepted the Automobile Agreement in 1965 because that government felt that the Agreement would evolve into a complete free trade agreement with Canada in the automobile
industry sector.\textsuperscript{1} The American objections have gathered strength with the passage of time both in terms of the number of government officials raising their voices against the Agreement and in terms of the increasing frequency with which these objections have been voiced. It appears that the objections raised by these officials in the Johnson and Nixon Administrations would have been successful in radically changing, if not abrogating entirely, the Automobile Agreement long ago except for the fact that these government objections have not been supported by the automobile manufacturers in the United States.\textsuperscript{2}

The reason the American manufacturers have not supported their government is that the Agreement has significantly improved the productivity of the industry in the American manufacturers' subsidiary operations in Canada. It is economically advantageous for the United States-owned industry to increase Canada's share of the automotive industry. Even without the support of its domestic automobile industry, the American government now objects to the Automobile Agreement to such an extent that the Agreement is a major item of trade disagreement in itself between Canada and the United States, and a source of continuing strain in the overall relationship between the two countries. As John Petty, Assistant Secretary of the

\textsuperscript{1}See, United States Congress, Senate Committee on Finance, \textit{Hearings} on H.R. 9042 (Washington, September 14, 15, 16, 20 and 21, 1965).

\textsuperscript{2}As Mr. Roy Bennett, President of Ford Canada, said "Opposition to the Agreement does not have its origin in the industry, on either side of the border, the industry is very happy with the Agreement." Roy Bennett, \textit{Toronto Globe and Mail}, November 19, 1970.
Treasury, told an International Monetary Fund meeting in September, 1971, the Automobile Agreement and more specifically the abolition of the production safeguards in that Agreement is "a specific demand on Washington's part". Similarly, Peter Flanigan, a Special Assistant to the President on International Economic Policy, said that the Nixon Administration wants "changes that work to the benefit of the United States".

The American government's objections to the Automobile Agreement have to do, in part, with the American perception of the objective of the Agreement. The Americans have insisted since 1965, that the purpose of the Agreement is to move both countries towards completely free trade in automobiles and automotive parts. The most notable advocate of this stance has been Senator Russel B. Long of Louisiana, who is now the chairman of the United States Senate Finance Committee. Senator Vance Hartke of Indiana and former Senator Albert Gore of Tennessee are also notable supporters of the proposition mentioned above. To my knowledge, no Congressman nor anyone in an executive position in either the Johnson or Nixon administrations, including these two Presidents themselves, has said that the objective of the Automobile Agreement is not free trade between the two signatories. Senator Russel Long outlined this position when, in September 1965, he questioned Secretary of Commerce John Connor during the Senate


Committee on Finance Hearings regarding the Automobile Agreement. Senator Long asked Secretary Connor if the latter regarded the Automobile Agreement, "as one of those classic situations where free trade between two countries can benefit both countries", to which Connor replied in the affirmative. Secretary Connor noted that the Agreement as it stood in 1965 did not represent absolute free trade in the automobile industry, but that the Agreement was an "orderly constructive move toward free trade, I think this was the right move to make". Secretary of the Treasury John Connolly offered his support to this United States Administration proposal for free trade in the automobile industry of North America when he stated that the Canadian government ought "to permit private Canadian citizens to import U.S. cars duty free,"

The American government asserts that it accepted the Canadian sales-to-production ratio and value-added "safeguards" in 1965 on the assumption that these features were temporary. As Thomas Mann, former Under Secretary of State for Economic Affairs, explained to the Senate Committee on Finance, the United States administration agreed to the safeguards because the American automotive industry "is much more efficient than the Canadian industry" and that safeguards were "designed to help an infant industry in a transitional period until such time as

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6 Ibid., p. 143.


8 See United States Congress, Senate Committee on Finance, Hearings on H.R. 9042, p. 184.
it is able to compete." This assumption by the United States government is not valid. There is no statement in the Agreement that the production safeguards (which are included in the Agreement under the heading of Annex A) are to be of a temporary nature. D.C. Thom, who was directly involved with the negotiations between the two governments, told me that he felt that the Canadian negotiators were far better prepared than their American counterparts when the Agreement was being drawn up. In fact, Mr. Thom went so far as to say that "the Canadian delegation out-negotiated the American team". 10

Robert McNeill, former Deputy Assistant Secretary for Trade Policy in the Department of Commerce, indirectly confirmed Mr. Thom's assessment of the negotiations in his testimony to the Senate Committee on Finance. Mr. McNeill, who held an equivalent position to Mr. Thom's on the American negotiating team, told the Committee that the matter of the Canadian production safeguards, which limit duty free importation of automobiles to qualifying Canadian manufacturers, only was "discussed, but this particular point was not negotiated." 11

In light of these statements, it is my impression that the Canadian government negotiators allowed the American officials to believe that the production safeguards were a temporary feature of the Agreement without having to commit this understanding to writing

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9 See United States Congress, Senate Committee on Finance, Hearings on H.R. 9042, p. 184.

10 Thom Interview, August 3, 1971.

11 United States, Senate Committee on Finance, op.cit., p. 183.
as part of the formal Agreement. Further, the United States government says that it understood that the safeguards would be removed by Canada as soon as this country's automobile industry became geared to North American production. John Connolly, Secretary of the Treasury said in September, 1971 that the United States Administration understood that the safeguards were "of a transitory nature (and that) these safeguards ought now to be eliminated". The United States government, specifically the Departments of Commerce and Treasury, insists that the Canadian safeguards are no longer necessary in view of the fact that the Canadian automobile industry had, within one year after the signing of the Agreement, been realigned for North American production and that the rapid growth of the Canadian industry during the life of the Agreement underlines this fact.

The United States government also argues that it signed the Agreement with a view to attaining a completely open border, as far as trade in automobiles is concerned, whereby the Canadian motorist would be able to buy cars on either side of the border without a tariff being applied. The Americans argue that United States citizens have been able to do just this since 1965. It is a unique situation when one can observe Senator Hartke arguing that the Canadian automobile consumer should have the same right to buy


13 United States Congress, Senate Committee on Finance, op.cit., 184.

14 Ibid.
his car where he pleases, as does his American counterpart.  

Senator Hartke's political objections to the Agreement stem primarily from two sources. First, because of the integrative character of the Agreement several automotive parts manufacturers in Mr. Hartke's home state of Indiana no longer have direct access to the automobile manufacturers which they supplied prior to the Agreement. Second, Senator Hartke objects to the Agreement because it is not symmetrical in application in Canada and the United States because of the Canadian safeguards.

Many United States government officials are dissatisfied that the Canadian government has to date been unwilling to remove the production "safeguards" or to broaden the category of duty free importers to include individuals as well as manufacturers. Secretary of the Treasury, John Connolly expressed the Nixon administration's dissatisfaction with the Agreement when he stated that he expected that Canada would "at long last remove the production safeguards". Stated succinctly, a great many United States government officials agree with Senator Hartke's assessment of the Agreement, namely that: "what is being hailed as the most successful bilateral agreement in Canadian history is conversely one of the worst for the United States."
Former Secretary of Commerce John Connor confirmed Senator Hartke's assessment when he stated that United States production of automobiles for North America would decline "not in volume, but in percentages", as a result of the Agreement. John Petty, Assistant Secretary of the Treasury, recently agreed with Senator Hartke's position when he stated that changes in the Agreement would be "a symbol in demonstrating a willingness to achieve balanced relations". The changes Mr. Petty referred to were the removal of the production safeguards which the Assistant Secretary of the Treasury felt would not "have any material effect on the automotive industry in either country".

Interestingly enough Senator Hartke feels that the Automobile Agreement is a bad arrangement for the United States because the private Canadian consumer cannot import an automobile from the United States duty free under the terms of the Agreement, while duty free treatment is accorded the private American consumer who imports a new car from Canada. What Senator Hartke is arguing for is the removal of the production safeguards which allow only Canadian automobile manufacturers to import automobiles from the United States duty free, or in other words, free trade between Canada and the United States in automobiles, which he feels would allow the United States to establish a larger

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19 United States Congress, Senate Committee on Finance, op.cit., p. 176.


21 Ibid.

22 United States Congress, Senate Committee on Finance, op.cit., p. 185.
trade surplus with Canada in this commodity.

The Americans who agree with Senator Hartke, such as John Connolly and John Petty, point out that Canada has been able to maintain its position on the Automobile Agreement since Canada has become economically stronger, while the United States has become economically weaker in the trade relationship between the two countries and that this is a direct result of the Agreement. Certain trade facts do not lend themselves to this proposition, however. Over the seven years that the Automobile Agreement has been in effect, Canada's cumulative deficit in automobile trade, including parts, amounts to $1.9 billion.23 Canada has had a surplus in auto trade with the United States for the past two years, but that surplus now appears to be dwindling. In the overall trade relationship between the two countries Canada has traditionally had a deficit since outgoing payments to the United States for interest and dividends outweigh any trade surplus that Canada might achieve. The overall trade deficit with the United States has been smaller in the last two years, however, running at about $600 million.24 There is little doubt that Canada's increase in automobile trade with the United States over the past seven years has reduced this deficit. Perhaps the most important thing to note at this time is not the figures mentioned above, which make a very good


24 Ibid.
case for Canada, but rather that the American government thinks that the Automobile Agreement is doing a disservice to the overall trade relationship between the countries. No amount of statistics seems likely to sway the Americans from attempting to change what they obviously think is a bad trade arrangement for them.  

The United States government favours a free trade arrangement with Canada in the automobile industry because it would increase the surplus in automotive trade which the United States presently has with Canada, but which has been declining since the Automobile Agreement came into effect. Free trade in automobiles would undoubtedly bring about complete integration of the Canadian and American automotive industries if their present status is taken as an indicator. It has already been pointed out that partial integration in the automobile industry, brought about by the Agreement has political disadvantages for Canada, since the locus of decision-making for the operation of the industry in Canada is now more solidly entrenched outside Canada. North American production runs, the subordination of Canadian managers to managers of the parent operation in the United States, and the demand by an international union that its Canadian membership be paid according to a non-Canadian cost-of-living index all restrict the Canadian government from initiating economic policies which are designed to achieve Canadian political objectives such as

25The American position is that the Agreement has brought about the reduction of the United States surplus in trade with Canada in automobiles and parts to $600 million in 1970, and 1971. The American position ignores the $1.9 billion surplus accumulated by the United States in automobiles and parts during the life of the Agreement. See Canada, Statistics Canada, Canada's Foreign Trade in Motor Vehicles and Parts (Ottawa, February, 1972).
east-west ties of commerce, the development of Canadian managers at an international business level, and distinctive wage policies based on the Canadian cost-of-living. Given these results of a partial free trade arrangement, one could expect that free trade in the automobile industry would lead, in all likelihood, to the removal of all decision-making regarding automobile production in this country from Canada with the result that the Canadian government would have no direct political control over the operation of the automobile industry in Canada. Further, given the situation which has developed in Canada during the life of the Agreement, the evidence suggests that a bilateral free-trade arrangement in automobiles and parts would bring about a substantial reduction in the manufacture of these commodities in Canada. Indeed, it is within the realm of possibility that the only manufacture of automobiles and parts that would take place in Canada under the terms of a free trade agreement would be that which could not be met by factories in the United States. The Canadian automobile industry would then be reduced to a distribution agency instead of continuing as a manufacturing concern.

The American government believes that the Automobile Agreement has directly contributed to its balance-of-payment difficulties with the result that the American government threw down the trade "gauntlet", in the form of a ten percent import surcharge on August 15, 1971. The ten percent surcharge did not directly affect the Automobile Agreement, or other joint trade arrangements between the two countries, but it did bring such extensive pressure to bear on all other commodities that Canada exports to the United States, that it appeared by the end
of November, 1971 as if Canada was about to agree to changes in the Agreement. Mitchell Sharp, Secretary of State for External Affairs, announced on November 26, 1971, that Canada and the United States would "reach agreement reasonably soon on contentious points in the 1965 pact." The contentious points Mr. Sharp referred to are the sales-to-production ratio, and the value-added safeguards. Secretary of the Treasury John Connolly left no doubt that the United States administration wanted Canada to drop the production safeguards when he stated in December, 1971, that "progress on existing trade relations with Canada will be made". The Americans removed the ten percent surcharge on December 18, 1971, but the pressure against the Automobile Agreement was maintained through the formation of the Domestic International Sales Corporation in December 1971. Through the "DISC" program the American government allows United States-based companies to postpone payment of tax on up to one-half of their export earnings. In effect, "DISC" encourages multi-national enterprises, such as the automobile manufacturers in Canada, to move more of their operations to the United States and export to other countries. It seems likely that some, if not all, of the parent United States firms of the subsidiary automobile manufacturers in Canada will use "DISC" with the result that the Americans own balance-of-payments problems may, in large measure, be overcome despite the provisions of the Automobile Agreement. In April, 1972, it became apparent that "DISC" was going to have exactly this effect on the automobile


industry in Canada despite the provisions of the Automobile Agreement.

Edward Broadbent, the New Democratic Party Member of Parliament for the automobile producing constituency of Oshawa-Whitby, asked the Minister of Industry, Trade, and Commerce, Jean-Luc Pepin, if he was aware that the Ford and Chrysler companies in the United States were using the "DISC" program. Mr. Pepin replied that he had no information to this effect despite the careful documentation that Mr. Broadbent provided with his questions. As a result of subsequent questions from Mr. Broadbent, the Minister revealed to the House of Commons that Ford and Chrysler were indeed using the "DISC" program in the United States. Outside the House of Commons Mr. Pepin agreed with Mr. Broadbent that the use of "DISC" by these two companies was a violation of the Agreement. In effect, the Minister of Industry, Trade and Commerce has admitted that the American government can alter its balance-of-payments position to its favour even in the automobile industry, despite the Automobile Agreement.

The political significance of this revelation is that notwithstanding trade statistics, which do not support their case, and the reasonableness and diplomacy of Mitchell Sharp and Jean-Luc Pepin,

28 Canada, house of Commons, Debates (Ottawa, April 13, 1972), p. 1293.

29 Ibid.

30 Canada, house of Commons, Debates (Ottawa, April 26, 1972), p. 1715

the American government is determined to change the Automobile Agreement to its greater advantage through political pressure, in the form of the "DISC" plan, if it is unable to alter the wording or sections of the Agreement itself. In a larger political context, the Automobile Agreement is instructive to the Canadian government in that through this experience it should realize that what the United States government cannot get in writing in bilateral arrangements it will force through the political pressure at its disposal.

The Canadian government is more than satisfied that the Automobile Agreement has been a tremendous boon for this country. Indeed among the government officials I contacted there is unanimous agreement with Senator Hartke's assessment that the Automobile Pact is, in terms of Canadian advantage, the "most successful bilateral agreement in Canadian history". 32

From the beginning the Canadian government saw the Automobile Agreement not as a free trade arrangement between Canada and the United States, but rather as a means whereby Canadian production of automobiles would grow as the North American demand for automobiles expanded. In this regard, my informants in the public service agree that the Automobile Agreement has more than achieved what had been hoped for in 1965. As Mr. Thom put it: "the Agreement has worked out better than expected"; 33 Mr. Barr, who is responsible for the day to day operation of the Automobile Agreement, concurred that the


33 Thom Interview, August 3, 1971.
Agreement has benefited Canada "more than was expected". Mr. Thorn was anxious to point out that the Agreement continues to be a success because the sales-to-production ratio guarantees that Canada will have an increasing share of the automobile market in North America. Thus, the Canadian government is fully aware that this safeguard is the basis for the success of the Agreement in Canada, and at the same time it realizes that the American government is prepared to sacrifice the Agreement "in toto" if Canada does not rescind the safeguards mentioned above, as well as the value-added provision which has already been described.

Mr. Barr provided further evidence that Canada is not prepared to engage in free trade in automobiles with the United States. He said that it was inconceivable that a trade pact in automobiles could exist between Canada and the United States "if expanding production in Canada was not guaranteed in the pact".

Mr. Thom indicated that Canada was able to include the safeguards in the Agreement because the Canadians simply out-negotiated the Americans between October, 1964 and January, 1965. This hardly complements the American government's assertion (see above) that it was understood, at least on their part, that the Canadian safeguards were to be of temporary duration. My own assessment is that it is invariably the party that wants to change an agreement which claims that mutually agreed upon undertakings were repudiated subsequently.

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34 Barr Interview, August 3, 1971.

35 Ibid.
by the other party.

Despite the fact that there is no mention in the formal Agreement that the Canadian safeguards were to be of a temporary nature, the government of the United States has informed the Canadian government that the United States signed the Agreement on the understanding that the Canadian safeguards would eventually be dropped. The American position is weak in terms of what Canada and the United States contracted for in the formal reading of the Agreement. However, because of the extensive economic ties between Canada and the United States and because of the relatively stronger United States position in the relationship, the American government is able to impress upon Canada that in politically-negotiated bilateral trade arrangements such as the Automobile Agreement, the expectations of the United States are as important as the formal signing of the Agreement. Canada is in no position to ignore the American expectations of the Automobile Agreement and is therefore faced with having to make a political decision from among three alternatives. Canada can change the Agreement to a free trade arrangement through the removal of the production safeguards; Canada can abrogate the Agreement, giving the United States a year's notice of the Canadian intention to do so; or Canada can resist the indirect pressure by the American government and maintain the Agreement in its present form. The Canadian government is most interested in an Automobile Agreement

which guarantees production in Canada and least interested in free trade in automobiles with the United States.

Further, Mr. Thom pointed out that the Automobile Agreement had not established a precedent in Canada-United States trade relations but, rather, continued a trend which had begun with the establishment of the Defence Production Shares Agreement of 1956. Indeed, Mr. Thom went on to say that not only did he feel that the Automobile Agreement was the continuation of a trend in the right direction but, also that he favoured "further integration of Canada-United States trade arrangements". 37 Again Mr. Barr agreed, saying that without question the Agreement "represented a step forward since both automobile production and jobs in that industry have increased, both as a direct result of the Agreement." 38 The Canadian deficit in the value of automotive parts has increased from $576 million in 1964 to $1 billion in 1968. The deficit has not been steady but does underline the complaints of the parts

37 Thom Interview, August 3, 1971.

38 Barr Interview, August 3, 1971. Mr. Barr is correct in his assessment that the Automobile Agreement has brought about an absolute increase in automobile production and in automotive industry jobs. In each case, however it should be noted that a trade-off is involved which has allowed these increases to take place in Canada. Production of motor vehicles (i.e. automobiles and commercial vehicles) has increased in Canada from 671,018 units in 1964 to 1,193,572 units in 1970, (see Canada, Dominion Bureau of Statistics: 42-001, Production of Motor Vehicles (Ottawa, July 1971)). The increase is a dramatic one. At the same time, however, it should be noted that the decline in production of motor vehicle parts and accessories has been equally dramatic. The total amount of money spent on capital construction, which can be used as a measure of the expansion of the parts industry in Canada, has declined from $15.8 million in 1964 to $9.4 million in 1971. (see Canada, Dominion Bureau of Statistics: 61-205, Capital and Repair Expenditures (Ottawa, May 1971)).
manufacturers mentioned above and emphasizes the situation which has occurred as a result of the manufacturers' ability to meet the Canadian "value-added" requirement of the Agreement, namely, that the growth of the parts industry in Canada is now curtailed. Similarly, the United States trade balance in automotive parts with Canada has increased by $385.2 million between 1964 and 1968. 39 This represents a percentage increase of 55 percent over and above the trade surplus in automotive parts held by the United States prior to 1965. The pressure on the parts industry can be measured in another way. While the value of automotive parts exports from Canada has increased from $73 million in 1964 to $749 million in 1968, 40 the value of automotive parts imports to Canada has increased from $649 million in 1964 to $1.8 billion in 1968. 41

Similarly, there has been a definite increase in the number of Canadians employed in the automobile industry since the Automobile Agreement came into being. 42

39 C.E. Beigie, op.cit., p. 87.
41 Ibid.
42 In 1964 the entire automobile industry, including the parts industry which experienced a decline in employment, employed 69,008 Canadians, while in 1970 there were 82,024 people employed by the industry. The Agreement has therefore brought about an increase of 13,016 jobs in Canada. This is hardly a "phenomenal" increase over the course of six years. These statistics were obtained through a telephone conversation with W.J. Patrick, Officer, Motor Vehicle Division, Department of Industry, Trade and Commerce, Ottawa, February 11, 1972.
As a result of the economic advances made by the automobile industry in Canada since 1965 potential political opposition has been blunted for the most part. Drawing a parallel with the Reciprocity issue early in this century, Conservative critic A.D. Hales denounced the Agreement as "return to lyill" when it was announced, but in light of the economic benefits which most pundits predicted for the Agreement (see the press reports in Chapter II) Mr. Hales' arguments failed to sway many Canadians. As a result, Mr. Hales and the Conservative party have changed their tactics. Mr. Hales and his Conservative colleague, Harold Danforth, who represents the Ontario automobile producing constituency of Kent-Essex, now assail the Agreement because of the harm it has done to some Canadian automotive parts manufacturers. This tactic has not touched a responsive chord in the Canadian electorate either. In fact, during the series of trade negotiations between Canada and the United States in the past five years, the Conservative party has not suggested that the Automobile Agreement is a major irritant, presumably because the Conservatives are interested in perpetuating the advantages occurring to manufacturers through the Agreement, but rather that the Liberal government has been inept in handling these negotiations.

The position of the New Democratic Party has also changed

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since 1965. Former M.P. Reid Scott's anxiety over the plight of dislocated automobile workers was logical enough, in that the New Democratic Party claims to speak for labour, but largely overcome by the government through the introduction of the Transitional Adjustment Benefit program in September, 1965. The present New Democratic Party critic of the Agreement is Edward Broadbent who represents the constituency of Oshawa-Whitby, the major industry of which is automobile production. Mr. Broadbent does not attack the Agreement as a whole since this course would potentially have disastrous political effects for Mr. Broadbent personally as the Agreement has maintained and slightly increased the employment of his constituents. Mr. Broadbent's prospects of re-election would not be enhanced by criticizing even indirectly, the main employer of his constituents.

The present position of the New Democratic Party, as articulated by Mr. Broadbent, is that the production safeguards contained in the Agreement are not stringent enough. Specifically Mr. Broadbent argues that value-added percentage of Canadian equipment used in new cars should be 100 percent. This tactic has similarly elicited little response either from the government or from the public.

Mr. Broadbent's revelation that the parent companies of Ford and Chrysler in the United States are using the "DISC" program caused some embarrassment for the Minister of Industry, Trade and Commerce, Canada, House of Commons, Debates (Ottawa, June 28, 1965), p. 2911.

Jean-Luc Pepin, but the concern of both men was essentially the same, namely: that the "DISC" program when used by American automobile manufacturers is a violation of the Automobile Agreement. 48

The political opposition has been unable to mount an effective campaign of criticism against the Agreement largely because such arguments concern Canada's long term political interests and the need for the development of an industrial strategy in this country. When these arguments are compared to the immediate and potentially short-lived benefits, which the Agreement has brought to Canadian automobile manufacturers, it is perhaps not surprising that the Agreement is not and has no prospect of becoming a political issue in itself while it is in effect. The Agreement is only likely to become an issue in itself if the Canadian government were to meet the United States demand for the removal of the production safeguards. The political opposition seems not to have considered the implications of the integration which has taken place since 1965. One consideration involves the relationship of Canadian jobs in the industry in Canada to the vehicles these workers produce for the North American market. To use an example which has previously been cited, 49 if Ford were to experience a decreased demand for its Maverick, the company could of course, be expected to cut back production on that model line. Ford's subsidiary operation in Canada manufactures the Maverick and if cutbacks were required, it would not be surprising to see Ford of


49 Shelley Interview, July 9, 1971.
Canada's parent firm in the United States order a shutdown in Canada before throwing any of its workers involved in production of the Maverick in the United States out of work.

Thus the Automobile Agreement has brought about an increase in the number of jobs available to Canadians in the automobile industry, although that increase has not been spectacular. At the same time the Agreement has subjected these jobs, through increased production integration, to the marketing decisions of a parent company which is likely to consider its Canadian employees as a secondary consideration if it does not consider them as simply being expendable. The Massey-Ferguson layoff of February, 1971, provides an example of what may be a continuing trend. At that time, the decision to cut back on production in North America by the United States head office led to the layoff of 350 American workers at the Massey-Ferguson parent plant and the layoff of 1,200 workers at the Canadian subsidiary plant.50

The Massey-Ferguson experience is in some ways analogous and therefore instructive about the situation which exists in the automobile industry as a result of the Agreement. The farm machinery industry in Canada operates under North American free trade, whereas the automobile industry does meet production requirements. In both cases, however, production is set up according to North American demand due to the integration which has developed in each industry. In the automobile industry, it is possible that Canadian workers

could benefit if North American demand increases for the models they are producing. The point is that in both industries the jobs of Canadian workers are related to North American demand, rather than Canadian demand and that when North American demand declines, in an integrated industry, Canadian workers will likely suffer job losses out of proportion to their American counterparts. Therefore, the relation of Canadian employment to North American demand, which results from these Canada-United States trade agreements does not serve the Canadian political interest of developing east-west commercial ties nor the maximum utilization of Canadian human resources when these resources tend to be more responsive to demand for their need, which exists primarily outside of Canada.

The Canadian government, both before and after the Automobile Agreement came into effect, has kept a close watch on the price gap between cars sold in the United States and cars sold in Canada. The price that a Canadian has paid for his car has always been higher than that paid by his American counterpart. Since the inception of the Agreement the Canadian government has hoped, and in some cases predicted, that this gap would be narrowed if not entirely eliminated as a result of the market advantages which the Agreement would facilitate. In 1970 Canadians paid from 3 to 3.5 percent more (or about $10) for a similar car model than did Americans. This represents the smallest disparity which has been achieved during the seven year life of the Agreement. In 1966 for example, the Canadian consumer paid 5 percent more for the same model of car than did the American

Canadian government officials have cited various reasons for the difference in prices. D.C. Thom explained that the national sales tax in Canada of 4 percent (the rate was 12 percent four years ago) was one of the reasons that a price difference exists between Canada and the United States, as well as the fact that replacement parts are more expensive in this country. Replacement parts are not included under the terms of the Agreement as I have pointed out above, so the Canadian Automotive Parts industry supplies this market in Canada. Since the potential market is smaller in Canada than the United States, a Canadian automotive parts company is unable to achieve the longer and therefore more economical production runs that its American counterpart can achieve. Therefore, the more expensive production costs in Canada result in higher prices for parts kept in stock by automobile manufacturers and others which are used as other than original equipment. Since the automobile manufacturer must maintain a stock of replacement parts, the increased costs of these parts in Canada is passed on to the new car consumer.

Mr. Barr agreed that the Canadian national sales tax is a contributing factor to the price difference, but he added that distribution in Canada is more expensive than in the United States and thereby also contributes to the price gap. Both men agreed that the "pegged" Canadian dollar, which had been set at 92.5 cents

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52 Thom Interview, August 3, 1971.

53 Barr Interview, August 3, 1971.
American was also a contributing factor to the price difference. The Canadian dollar has been floating freely since June 1, 1970, and during the first quarter of 1972 was valued at $1.01 and $1.02 in United States funds. Theoretically, the price of an automobile coming into Canada under the terms of the Agreement should cost less to the Canadian consumer if the Canadian dollar is worth one to two cents more than the United States dollar. The evidence suggests that in spite of the Agreement it is still more expensive to produce a car in Canada as compared to the United States, even though the government of Canada has consistently claimed that it negotiated the Agreement to overcome this very discrepancy.

In 1971, the Automobile Agreement and explanations of government officials notwithstanding, the average price difference rose to over 8 percent, and the Canadian government is clearly concerned. John Turner, Minister of Finance, announced on April 26, 1972, that he would ask the major car manufacturers in Canada to be more specific in the economic reasons which have been given for this increase. James Dykes, who speaks for the Motor Vehicle Manufacturers Association replied that higher Canadian automobile prices in 1971 were due to increased production costs in this country and to the fluctuation of the Canadian dollar. In view of the government's assessment of the effect of the price differential of the "pegged" Canadian dollar, Mr. Dykes' latter argument would seem to be suspect. Mr. Turner's

54 Canada, House of Commons, Debates (Ottawa, April 26, 1972), p. 1646.

announcement that he would seek an explanation for the rise in the price differential for cars indicates that the government is not satisfied with explanations offered by the automobile industry or by the government itself. The government seems to feel that it has taken the steps, such as the reduction of the national sales tax and the floating of the dollar, required to reduce the price difference between cars purchased in Canada and the United States and it seems to want to know why a result opposite to what it has expected has occurred.

The government apparently sees the Agreement as a means of narrowing the price gap between similar models of cars in Canada and the United States, but not as the instrument to eliminate this gap. The automobile industry claims that even with the Agreement, automobile production is more expensive in Canada than in the United States, so that higher prices must be charged in this country to compensate for the difference in production costs. The government recognizes the original market power of the automobile industry and so has claimed that the Automobile Agreement has been worthwhile in that until 1971 the price gap had been steadily narrowed. The price gap in 1971 was at the same level as it was in 1964 when there was no Automobile Agreement. The government will call for the car manufacturers to explain but neither the government nor the Agreement is likely to effect a roll back in the price of cars in Canada. The automobile industry sets the price for the production and the sale of its products and the government is prepared to let the industry continue to do so even if it means not talking about this particular aspect of the "most successful bilateral agreement in Canadian history".
The evidence of the government's posture in this regard is two-fold. First of all, Mr. Turner has said only that he will ask the automobile manufacturers to explain the widening price difference. He has given no indication that the government is contemplating requesting the automobile manufacturers in Canada to roll back their prices. Second, the budget which the government presented to the House of Commons on May 6, 1972 provided incentives for the expansion of all industry in Canada including the automobile industry. Mr. Turner's approach appears to encourage the pricing policy of the automobile industry, rather than holding the industry accountable for its prices in Canada. Mr. Turner's budget is, in part, a political attempt by the Liberal government to counter the "DISC" program of the United States which has affected the automobile industry in Canada despite the existence of the Agreement. It seems apparent that the United States brought the "DISC" program into being to rectify balance-of-trade problems such as those that the United States government was experiencing with Canada under the terms of the Automobile Agreement. This aspect will be discussed further below. At the same time the budget encourages integration within the automobile industry which was initiated by the Automobile Agreement. The government has invited, implicitly, a pricing policy in the automobile industry which is set on a North American basis. A North American pricing scheme which is established outside Canada,

56See, for instance, statements made by Secretary of the Treasury John Connolly, Toronto Globe and Mail, December 20, 1971.
but which is applied to this country, undermines the Canadian government's capacity to implement independent tax and monetary policies which is a phenomenon counter to Canada's long term political interest.

The most immediate concern of the government with regard to the Automobile Agreement is the way in which the United States "DISC" program can circumvent the Agreement entirely. Jean-Luc Pepin, the Minister of Industry, Trade and Commerce has stated that "DISC" breaks the Canadian-United States Automobile Agreement. Chrysler and Ford informed Mr. Pepin on April twenty-seventh and April twenty-eighth, respectively, that their parent companies in the United States have been using "DISC" since December 1971. Through the use of "DISC" the United States automobile manufacturers can circumvent the Automobile Agreement in two ways. First, the American companies can use the tax benefit to reduce their prices in Canadian markets. Second, "DISC" can lure production by United States subsidiaries in Canada back to the United States and at the same time damage Canadian sales in third countries, where American automobile manufacturers have the benefit of "DISC". Either of these courses undertaken by Chrysler and Ford, or both of them, would without doubt, cause a substantial surplus in trade in automobiles in favour of the United States which would be unaffected by the Automobile Agreement. The options open to the Canadian government

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are limited until the true effect of the "DISC" program can be measured on the automobile industry in Canada.

The Canadian government can invoke countervailing duties if it proves that the reduced prices available to American manufacturers in Canadian markets seriously damages local Canadian industry. It is also possible for Canadian customs officials to block, on the instructions of the government, the entry into Canada of automobile manufactures which have benefited under "DISC". This latter course is virtually impossible in a logistic sense so that, in fact, it is more a theoretical option than a real one. This is so because a Canadian customs official at a Canadian port of entry has to make a decision on the spot as to whether or not specific manufactures coming into Canada fall under the overall terms of the Automobile Agreement. The problem here then is not having the time to examine the great volume of automobile manufactures coming into the country with a view of ensuring that the terms of the Agreement are not being broken.

A more important reason explaining why it is so difficult to prevent automobile manufactures from coming into Canada after having been subsidized in the United States by "DISC" is that the United States government has so far refused to provide Canada with a list of American companies sending automobile manufactures into Canada using the "DISC" program. The Department of Industry, Trade and Commerce has only been able to ascertain that Ford and Chrysler are using "DISC" by requesting this information from the subsidiaries of

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these two corporations in Canada. It is difficult indeed for a customs official to identify first of all which companies in the United States are using "DISC" to send specific automobile manufactures into Canada and second, to designate which imports of the huge volume coming into Canada fall outside the terms of the Agreement and are therefore subject to duty. It is also unlikely that Canada would apply countervailing duties on automotive products since this step would likewise be tantamount to breaking the Agreement.

The "DISC" program, as it applies to the automobile industry, is the United States government's attempt to ensure that the United States will regain and hold its surplus in automobile trade with Canada without directly altering the Automobile Agreement. The Canadian government responded to "DISC" with the budget proposals of May 8, 1972. The government has offered substantial tax concessions to all manufacturers in Canada, including automobile manufacturers, and automotive parts manufacturers, who invest in new capital equipment which will expand production and increase efficiency. The Canadian government has met the American government's attempt to circumvent the Agreement with incentives that do the same type of thing as the "DISC" program was designed to do, for the tax concessions to manufacturers announced in the budget on May 8, also effectively circumvent the Automobile Agreement itself.

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60 Canada, House of Commons, Debates (Ottawa, April 28, 1972), p. 1715.

The political repercussions resulting from this move and counter move, namely the United States government's "DISC" program and the Canadian government's May 8, 1972 budget proposals, have been minor. The Minister of Industry, Trade and Commerce may have suffered some embarrassment in that an opposition Member of Parliament (Edward Broadbent) brought forth information to the public which Mr. Pepin did not seem to have, namely, that two American automobile manufacturers were using the "DISC" program. The opposition did not call for the resignation of Mr. Pepin and neither the government nor the opposition called for the abrogation of the Automobile Agreement by Canada. Indeed the government and the opposition seem determined to retain the economic benefits brought about by the Agreement without giving outward consideration to the affect the Automobile Agreement has on Canada's long term political interest and on the development of long range industrial strategy.

It might appear from the discussion in the preceding chapter that the Canadian and American governments have reached an impasse, or at least, have been unable to alter the Automobile Agreement via normal negotiations. The Automobile Agreement, similar to most facets of the relationship which exists between Canada and the United States, is nothing if not dynamic.

The United States government is determined that the Agreement should evolve into a free trade arrangement in automobiles and parts with Canada and is prepared to apply substantial political pressure, in the form of the "DISC" program, to bring about this desire. The Canadian government is satisfied with the Agreement and determined
to resist American pressure as evidenced by the May 5, 1972 budget response to the United States "DISC" program. For the time being, the Agreement itself remains intact and has important political consequences for Canada. The following chapter deals with the political consequences that the Automobile Agreement has for Canada.
CHAPTER IV

THE POLITICAL IMPLICATIONS OF THE AUTOMOBILE AGREEMENT

The goal of this chapter is to review the political issues and implications associated with the Agreement. These include the passage of the Agreement by an order-in-council, the difficulty the Liberal government has had in explaining the reasons why the Agreement has not brought about parity in the prices that Canadian and American retail consumers pay for their automobiles, and the political effects of the continental rationalization of the automobile industry as encouraged by the Agreement.

The chapter also deals with more recent political implications of the Agreement such as the United States import surcharge provisions and "DISC" program and the subsequent Canadian responses to these measures. Further, the chapter will survey the political issues of wage parity in the automobile industry and the more nationalistic outlook of the Canadian branch of the United Auto Workers both of which have arisen as a result of the Agreement. This section also considers the nature of the political opposition to potential changes in the Agreement in the House of Commons, a summation of the author's views on the future of the Agreement itself and the instruction which
the Agreement provides for the future of Canada and Canadians.

The Canadian government has been criticized by the Progressive Conservative Opposition for bringing the Automobile Agreement into effect in 1965 by order-in-council rather than allowing a full debate in Parliament. This issue is a moot point. A full debate of the Automobile Agreement before Parliament, in my opinion, would have only delayed the Agreement from becoming law as soon as it did. In 1964 the Canadian government felt that the automobile industry was not contributing its potential to the Canadian economy as a whole, despite the fact that the industry constituted then, as it does now, one of the most important single sectors of the economy. The government designed the Automobile Agreement to allow the industry to increase its output, improve its export performance, and provide more jobs for Canadians. Trade arrangements of this type between Canada and the United States have always prompted Canadian critics to point out, often with justification, that the Canadian government has arranged another "sell out", such as in the case of the Columbia River Treaty and in some of the energy resources trade arrangements.¹

It has been pointed out, in an unconvincing way, that an order-in-council is "a standard parliamentary procedure".² A minority


²Thom Interview, August 3, 1971.
government with memories of the Pipeline Debate still fresh in its mind would have been unwise politically to risk a full scale debate in Parliament even over an agreement as important as the automobile trade pact. Furthermore, a full debate may have forced the government to reveal not only to the opposition but also to the United States administration that the sales-to-production and value-added safeguards were to be a permanent feature of the Automobile Agreement. Such a revelation would have probably killed the ratification of the Agreement by the United States Congress, since as has been pointed out, most United States politicians regard the Automobile Agreement as the first step toward free trade in the automobile industry between Canada and the United States. If the Congress had felt in 1965 that the production safeguards were to be a permanent feature of the Agreement, it would have undoubtedly not passed the Agreement into law. The critics in Canada were most severe as it was; but it is unlikely that the continuation or even the abrogation of the Automobile Agreement tomorrow would bring about a general election, much less the defeat of the government. In January, 1965, however, both of these possibilities were distinct. Therefore, an order-in-council was the only expedient that the Liberal Government felt it had at its disposal in order to remain in power and to

3 The Liberal government lost the general election in 1957 partly because of its alleged arrogance in cutting off all debate in Parliament on the method of financing and construction of the Trans-Canada Pipeline. See William Kilbourn, Pipe Line (Toronto, 1970), pp. 111-133.

bring the Agreement into effect in Canada with the least possible political furor occurring as a result.

The government has had difficulty in giving an adequate explanation for the fact that car prices in Canada are higher than in the United States. Often the explanations are similar if not redundant and when compared to those offered by the automobile industry they are contradictory. The Automobile Agreement may have narrowed the price gap, although this argument is suspect due to the fact that the gap in 1971 widened to the pre-Agreement level. There is another explanation for the price gap other than those mentioned above which was never specifically stated, but was inferred to me by my informants in the public service. The Automobile Agreement is a partial free trade arrangement and as such has facilitated partial integration of the automobile industries in Canada and the United States. The two safeguards which Canada added to the Agreement assure Canada of a specific level of indigenous automobile manufacturing, without complete integration. One result of the safeguards, it seems, is a slightly higher price for automobiles purchased in Canada. It can be argued that an additional $240 for an automobile is not too high a price to pay to ensure that the Canadian automobile industry continues to operate as more than a mere distributing agent for a parent manufacturing company. Without the production-to-sales ratio and value-added safeguards the

5 Canada, House of Commons, Debates (Ottawa, April 26, 1972), p. 1646.

6 W.J. Patrick Interview, February 11, 1972.
eventuality mentioned above is not beyond the realm of possibility. The Canadian government, however, is deserving of censure for not having the candor to state that Canadians are required to pay a price to ensure that wholly-owned subsidiary operations such as those which constitute the automobile industry, continue to manufacture in this country under the terms of even a partial free trade agreement as it applied to North American automobile production. I would say that this price is reasonable as long as Canada does not have an indigenous automobile industry.

One of the reasons that the Canadian government negotiated the Automobile Agreement was to rationalize the automobile industry. Stated succinctly, the government agreed with Canadian manufacturers that "too many model lines were being produced for too small a domestic market". The Canadian safeguards added to the Agreement allowing the rationalization of the automobile industry has meant that far fewer model lines are manufactured in Canada than previous to the Agreement. It is possible then that these cars would be manufactured in Canada even though there might not be any Canadian demand for these models. Conversely, the production of these particular models might cease entirely if there were only a Canadian demand for them or the Canadian demand might be met by manufacture in the United States only. The Automobile Agreement has made this type of rationalization possible. If the Automobile Agreement is abrogated, the rationalization it facilitated will have left the Canadian automobile consumer

7Thom interview, August 3, 1971.
with a smaller model choice than was available before the Agreement, a choice which may or may not meet Canadian driving needs. An attempt to provide a wider range of models by Canadian manufacturers will bring about the inefficiency which was so apparent in the industry before 1961. The continental rationalization of the automobile industry has reinforced continental advertising of automobiles. Thus Canadians are urged to buy larger cars in the same way that Americans are despite what seems to be the marked Canadian preference for compact cars. The effect of this relentless United States-based advertising is the erosion of distinctly Canadian tastes and vicariously the Canadian political nationality.

By promoting continental rationalization through the Automobile Agreement, the Canadian government has also brought about some more tangible results. Since automobile production is now geared to North American requirements, production decisions are left virtually completely to the head offices of the automobile manufacturers based in the United States. The result for the Canadian government is that its leverage with regard to anti-combines legislation and/or cases of extra-territoriality is even less meaningful than it was before the Agreement came into effect and in fact such leverage may now be effectively reduced to the point where Canada is limited to making protests which neither the automobile industry nor the American government is likely to heed.8

8I.A. Litvak, op.cit., p. 159.
The Automobile Agreement, by partially integrating the production of automobiles in North America, reinforces the notion that the United States Treasury Department has a legal right to prohibit or at least to scrutinize the Canadian export of automobiles or trucks which include United States-origin parts to third countries.\(^9\) Indeed such a case has already occurred as the Treasury Department held up the sale of Ford of Canada trucks to the People's Republic of China in 1957.\(^10\)

Similarly, the Automobile Agreement represents the recognition by the Canadian government that, to cite a specific example, Ford of Canada's parent company in the United States has the prerogative to decide which automobile models Ford of Canada will produce in North America, as well as the prerogative to decide what market rights Ford of Canada has in the rest of the world. The example of the North American production of the Maverick by Ford of Canada has already been cited. For example, Ford of Canada has market rights in all British Commonwealth countries except for the United Kingdom with the remainder of the world being reserved for the parent United States Ford Company.\(^11\)

Further, the jobs of Canadian workers may now be tied

\(^9\) See, United States Treasury, Congressional Federal Record, Title 31, Foreign Assets Control Regulations: 500,204; and 500,529 (Washington, 1969).

\(^10\) Canadian House of Commons, Debates (Ottawa, December 18, 1957), p. 2514.

\(^11\) Ford Motor Company of Canada, Articles of incorporation (Oakville, 1906).
directly to marketing decisions which originate in the United States and subsequently on the continental sale of the model lines these workers produce. It has already been shown above that when a North American industry covered by free trade, such as the farm implements industry, slumps it is likely to be the Canadian workers who are laid off first. I have cited the example of how Massey-Ferguson dealt with a general production cutback in February, 1971, by laying off 1,200 workers at its Canadian subsidiary operation while only 350 were laid off at the Massey-Ferguson parent company in the United States.  

Another tangible result is that the Canadian government has come to realize after President Nixon's economic moves on August 15, 1971, that it cannot discuss the Automobile Agreement with the United States in isolation from other trade matters between the two countries. The Canadian government has found that rationalizing its own automobile industry is directly related to its entire trading relationship with the United States, especially when the Americans consider that by so doing the Canadians have hoodwinked their "neighbours" into accepting what the American government considers to be an unsatisfactory arrangement.

It is difficult to imagine that the Canadian government was naive enough to believe that the Automobile Agreement would last forever. No matter what happens to the Agreement, the rationalization of the Canadian automobile industry has backed the government into a  

corner. On the one hand the government has removed itself still further from having any direct influence on the industry's production decisions for this country and their effect because of the integration which has occurred as a result of the Agreement. On the other hand, if the Agreement were ended Canadians generally would have fewer models from which to choose. The automobile industry in Canada would be in the same position as it was before 1965 except that it would have a substantially narrower range of products to offer to its Canadian customers and no competitive access to the American market. This development might be advantageous if the effective decision-making for the automobile industry in this country were patriated. There is no guarantee that these circumstances would take place upon the abrogation of the Agreement or if they did, to what extent they might be advantageous.

The Canadian government learned on August 15, 1971, that even bilateral agreements such as the Automobile Agreement are indirectly affected when the American government turns inward to stimulate its domestic manufacturing industries. The Automobile Agreement and the products it exempts from duty in Canada and the United States were not directly affected by the imposition of the 10 percent surcharge on imports announced by President Nixon in August, 1971. The Canadian government is well aware, and has been for some time, that the United States Administration is dissatisfied with the Agreement as it exists. There can be little doubt that the measures taken on August 15, 1971, though world-wide in design, served to put particular pressure on Canada for the purpose of altering this specific irritant to the United States, i.e., the
Automobile Agreement.

The timing of President Nixon's announcement is important. Trade talks between Canada and the United States had already been scheduled for the first two weeks of November, 1971, and one of the primary topics to be discussed at these meetings was the Automobile Agreement. The surcharge did not affect the Agreement directly, but it did affect all but a few sectors of the trade between the two countries so that in effect, Canada was invited by the application of the surcharge to make trade concessions to the United States which would be negotiated at the joint meeting. From the Canadian response to President Nixon's measures it can be implied that revision of the Automobile Agreement was one of the trade concessions that the United States Administration wanted Canada to make.

The Canadian government's response was threefold. First, the government made its traditional pilgrimage to Washington to ask that Canada be exempted from the surcharge. This the Americans refused outright. Second, the Canadian government prepared to offer support to Canadian industries affected by the surcharge in the form of the Employment Support Bill. Third, the government simply out-waited the United States until the surcharge was dropped on December 18, 1971, without having to negotiate changes in the Automobile Agreement. The government was able to resist the


Canada, house of Commons Debates (Ottawa, September 13, 14, 15, and 16, 1971). The bill allowed tax deferrals and exemptions from tax to companies resident in Canada which were adversely affected by the surcharge with a view to keeping the products of such companies competitive in the United States market.
overall pressure to change the Agreement without making trade concessions, but by so doing it strengthened the American resolve to explore other ways by which the same end could be achieved. The American government has effectively circumvented the Automobile Agreement by means of the "DISC" program which has already been mentioned.15

The response of the Canadian government, namely: the budget of May 8, 1972, indicates that this is the case. The government offered tax concessions to all manufacturers including the automobile manufacturers just as the American "DISC" program was offered to all United States-based industries including the automobile industry. If the "DISC" program had no potential of circumventing the Automobile Agreement presumably the American government would not have offered it to the automobile manufacturers as a method of rebuilding the United States surplus in trade in automobiles with Canada. By the same token the Canadian government would not have included Canadian automobile manufacturers in its budget incentives program if the government felt that the "DISC" program did not have the potential to circumvent the Agreement as it applies to these Canadian manufacturers.

The United States government wants to change its overall trading relationship with Canada in a way which is favourable to the United States. The Automobile Agreement is an obstacle to the achievement of the kind of trading arrangement the United States wants with Canada. In this sense, the Canadian government's overall bargaining position with regard to trade matters is undercut to the point where Canada is

limited to reacting to American initiatives to change the status quo. Obviously, the future of the Automobile Agreement itself is suspect under such circumstances and it is unlikely that the presentation of trade statistics by the Canadian government with regard to automobile production is likely to sway the thinking of the American government toward regarding the Agreement as anything but a bad deal for them.

The pressure of the Canadian government to change its trade relationship with the United States toward free trade is increased rather than lessened by bilateral trade arrangements such as the Automobile Agreement when the United States turns inward to shore up its economy. It is quite likely that the Canadian government can only counter move just so far until it is faced with the choice of changing the Automobile Agreement in ways favouring the United States or changing Canada's overall trading relationship with the United States. The Canadian government would prefer to do neither, but this is the least likely possibility of all.

The Automobile Agreement does, however, bring into the open the basic dilemma as to whether Canada should pursue an increasingly integrated trade and economic relationship with the United States or whether Canada should be attempting to make basic changes in the relationship toward increased Canadian autonomy. By bringing the dilemma into the open, the political decisions made in the pursuit of either course become at the same time more critical and more subject

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16 C.E. Neigle, op.cit., p. 87.
to debate because of the experience gained from what I would call bilateral experiments like the Automobile Agreement.

A further consequence faced by the Canadian government is the decline of its influence on the automobile industry which has come about as a result of the Automobile Agreement. Prior to 1965 Canadians purchased 7.5 percent of the automobiles produced in North America yearly, while Canadians manufactured 4.5 percent of the total number of cars put on the North American market each year. The Canadian government felt that the Automobile Agreement and particularly the production-to-sales ratio would narrow this gap and attain what has been called a "fair and equitable" share of North American automobile production. What has happened is that the gap mentioned above has narrowed slightly. Canadians continue to purchase 7.5 percent of the automobiles produced in North America, and Canada now manufactures 5 percent of the total North American output of automobiles. Production decisions regarding the number and types of models manufactured in Canada are now made virtually exclusively in the United States; and the American government wants a new trading arrangement. Thus, the Canadian government, through the Automobile Agreement, has not only given up its influence over automobile production in this country, but has also provoked American dissatisfaction with regard to its trade relations with Canada.

\[\text{The Canadian government has lost its direct influence over}\]

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18 Ibid.
the automobile industry in this country because since 1965 the industry has been prompted to function as a North American entity with locus of decision-making for that entity moving increasingly to the United States. The economic benefits accruing to the automobile industry, as a result of this shift, are apparent. There are, at the same time, however, political shortcomings. Production decisions which originate in the United States for the automobile industry in Canada deny the validity of promoting, by political means, Canadian ownership of Canadian business,\textsuperscript{19} and of removing export limitations imposed on Canadian subsidiary operations, not to mention the development of Canadian managers of international business as well as scientific, engineering and technical support personnel in such business. These elements are indispensable in the development of a Canadian industrial strategy which serves Canada's political and long term economic interests.

As production in the automobile industry has become integrated to a North American context the north-south flow of commerce between Canada and the United States has been reinforced at the expense of Canada's pattern of national integration established on an east-west basis of commercial flow. At the same time, integration in the automobile industry has brought about the demand by the United States leadership of the international automobile workers union that its

\textsuperscript{19}A. Litvak, op.cit., p. 65. The percentage of foreign ownership of Ford of Canada has increased since 1965. Litvak notes that in 1964 Ford-Canada was a 74.9 percent owned subsidiary of Ford Motor Company Incorporated (i.e. Ford-U.S.). In 1969 this percentage had increased to 81 percent ownership by Ford-U.S. The other 19 percent of Ford-Canada is owned in Canada.
Canadian membership should be paid wages on a par with those of the American membership and which are adjusted to American tax and monetary conditions. Neither of these phenomena are in Canada's political interest since they do not lend themselves to the development of appropriate Canadian wage policies and independent tax and monetary policies, but it seems clear that these objectives will not be realized in the automobile industry in this country during the life of the Automobile Agreement in its present form. The Canadian government cannot effectively implement economic policies which are designed to achieve political interests of the kind mentioned above as long as the production decisions for the automobile industry in Canada are made outside this country.

Some Canadian automobile workers have become much more nationalistic as a result of the Agreement. As mentioned above, a group of Canadian automobile workers headed by Larry Haiven of Windsor, Ontario have called for the separation of the Canadian UAW from the United States-based international UAW. Mr. Haiven's group, the "Canadians to Abolish the UAW Autopact Committee", has also called for the abrogation of the Agreement itself. 20 Dennis McDermott, Canadian president of the UAW, is sympathetic with Mr. Haiven's position although he is not as forthright. Mr. McDermott has called for increased autonomy for the Canadian UAW in response to the assertions by the American president of the UAW international union, Leonard Woodcock, that the United States membership sees the

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Agreement as the means to protect the jobs of its United States membership. 21

It has been mentioned above that the Canadian automobile manufacturers are now able to meet the government's value-added safeguard through payrolls and inventories alone with the result that parts for new cars may be brought into Canada duty free. As a result, the parent firms of the Canadian automobile manufacturers now can supply virtually all the parts which their subsidiaries require from plants operating in the United States. Another result is that the Canadian parts manufacturers have increased difficulty of access to the American market because of the American industry's preference to buy parts "in house" and because the Canadian parts producers cannot achieve a volume of production sufficient to compete with their American counterparts. The net effect is that the parts manufacturers are being forced out of business at worst, or are having to curtail their operations at best.

As mentioned above A.D. Hales, the Progressive Conservative critic in the House of Commons, cited the case of Ingersoll Machine and Tool which was forced out of business because it could not compete in the United States automotive parts market after the Automobile Agreement came into effect in 1965. 22 A.J. Wallace informed me that Earl Robinson Auto Parts of Oshawa had lost about


22 A.D. Hales, Remarks to the Progressive Conservative Caucus Committee on Industry (Ottawa, March 26, 1965).
one-third of its business as a result of the automobile manufacturers' decision to shift the source of supply of these parts to the United States after the Agreement came into effect. An example of the fact that the automotive parts industry generally in Canada has not been expanding is that capital expenditures for repairs and expansion have declined in the industry since the Agreement came into effect. Because the automobile industry has lived up fully to the provisions of the Automobile Agreement, the Canadian government cannot provide direct help to the parts manufacturers in this country.

It has already been mentioned (see Chapter 11) that the value of automotive parts exports from Canada has increased, at the same time, however, the import of automotive parts to Canada has increased even more drastically and it appears that it will be the large Canadian subsidiaries of United States-based automotive parts firms such as Kelsey-Hayes of Windsor and Budd Automotive of Kitchener, which will reap the greatest share of these benefits.

It should not be inferred from the above discussion that Canada is powerless to do anything about the position in which it finds itself because of the Agreement. The government has offered tax concessions

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23 Wallace Interview, August 12, 1971.

24 Canada, Dominion Bureau of Statistics. 61-205, Capital and Repair Expenditures (Ottawa, May, 1971). The capital expenditures amounted to $88.9 million in 1965 and in 1969 these same expenditures amounted to $79.6 million.

to all the manufacturing industries including the automobile industry through the budget speech of May 8, 1972, in the hope that possible reductions in automobile production as a result of the United States "DISC" program will be offset in this country by the tax inducements announced by Mr. Turner. The government should be fully prepared to see another initiative similar to "DISC" introduced by the United States government if the Canadian tax concessions are successful in maintaining automobile production in Canada and exports to the United States at their present levels.

The Canadian government has offered Regional Incentive Grants to Canadian parts manufacturers, but this response would seem to be of limited value since the American government has threatened to apply countervailing duties arguing that the Canadian government's incentive program gives Canadian producers an unfair advantage in competing with American producers in the United States market. The United States government has recently made such a response in the case of the French-owned Michelin Tire Company of Nova Scotia, a company which has been subsidized by grants of money from the Canadian Department of Regional Economic Expansion. The Michelin Company has been granted what the American government has called an "unfair competitive advantage" when the company exports tires to the United States market. 26

The Canadian government's response to its loss of influence on the automobile industry as a whole is likely to be successful in

26 See the comments of John Petty, Assistant Secretary of the Treasury, The Ottawa Journal, April 29, 1972.
the short term only. The United States is determined that the Automobile Agreement, which it believes has brought about an unsatisfactory trade arrangement, must be altered. In the long term, Canada would seem to have two choices with regard to the Automobile Agreement, namely: change the treaty in a mutually acceptable way; or abrogate the treaty entirely.

The Canadian government has talked about changing the Agreement in terms of expanding it to include other items such as tires which were not included in the original Agreement, while the Agreement as it presently stands would remain the same. The United States government is less vague about the way in which it would change the Agreement. The Americans want the Canadian safeguards to be removed and they want the private Canadian consumer, as well as Canadian manufacturers and retailers, to be able to import automobiles from the United States. Given this fundamental difference, the only other option which appears open to the Canadian government is the abrogation of the Agreement. Whichever course the Canadian government chooses to follow, the economic and political effects are bound to be serious.

The Canadian government negotiated the Automobile Agreement with a view to eliminating the gap between production and sales of automobiles in the North American market. The Automobile Agreement

27C.E. Beigie, op.cit., pp. 123-138. The interviews with D.C. Thom and Bert Barr confirmed that this is the kind of change which the public service would recommend to the government.

has from the beginning, been a modified free trade agreement which is contingent on special commitments (i.e. the safeguards) from the automobile industry to the Canadian government. The Agreement has narrowed slightly the gap between production and sales, but has not eliminated it. Consideration must be given to the consequence of the Canadian government dropping the safeguards in order to maintain the Agreement.

The government officials with whom I spoke were in concert in this regard. D.C. Thom said: "Foreign competition would be wide open in Canada, disruption of the entire industry would ensue." He made it clear that the disruption could be so extensive as to reduce the automobile manufacturing industry in Canada to a series of distribution warehouses for automobiles which are produced in other countries. No Canadian government could easily overcome the economic impact of having a major revenue source so decimated. By the same token, the automobile industry is also of key importance because of the capital it generates and disperses. Yet, if the production safeguards were dropped, these functions of the automobile industry in Canada would be severely cut if not entirely eliminated. Further, no Canadian government would want to risk throwing more than 80,000 Canadians employed in automobile manufacturing out of work when a chronic unemployment rate of 6 percent is already a political issue while these workers are employed.


30Thom Interview, August 3, 1971.
Bert Harr acknowledged that if there is to be a Canada-
United States Automobile Agreement there "must have to be safeguards to
control production and employment in Canada." He agreed with
Mr. Thom that an Automobile Agreement without safeguards would
definitely be economically disastrous for Canada and that economic
effects would bring about political repercussions.

It is my opinion that these repercussions would involve the
overall relationship between Canada and the United States rather
than the defeat of a Canadian government at the polls as a result
of having dropped the safeguards. The latter possibility is,
however, far from being beyond the realm of possibility. Canada's
maintenance of the safeguards to date represents this country's
unwillingness to permit the level of automobile manufacturing here
to be determined solely on decisions made in American head offices.

At the same time, the safeguards militate against the possibility
that the United States parent automotive firms might distort decisions
based on market forces to raise production beyond what the market
could actually support. In a political climate where nationalist
opinion such as expressed by the Waffle, and the Committee for an
Independent Canada is so intense, it is unlikely that any government
could survive maintaining the Agreement without the kind of protection
mentioned above.

It is my view that the Automobile Agreement is likely to
have direct and immediate political repercussions only if a Canadian
government allowed the Agreement to evolve into a free trade arrangement.

31 Harr Interview, August 3, 1971.
in automobile trade between Canada and the United States. Given
vigorous and effective criticism of such an arrangement by a
visible, alternative opposition party, it is highly probable that
a general election could be forced on such an issue and that the
government which initiated such a program could be voted out of
office. The experience of the Liberal government of Wilfrid Laurier
in 1911 may be used as an indicator of the prospects for a Canadian
government which advocates free trade with the United States. 30

As a partial free trade arrangement the Automobile Agreement
has been subject to relatively little criticism, especially with
regard to its political implications. The criticism of Conservative
A.D. Holes on just these grounds has been muted by the automobile
industry in this country while the Agreement has been effect. As a
result, the Conservative party no longer argues for the abrogation of
the Agreement. Instead, the Conservative party has become a voice
for the Canadian automotive parts manufacturers who have suffered as
a result of the Agreement. 31 The Conservatives have therefore become
implicit supporters of the Agreement and the introduction of the
Transitional Adjustment Benefits scheme for parts manufacturers by
the Liberal government is an effective and disarming political
response to the criticism by the Conservatives.

30 The defeat of the Laurier government by Robert Borden and
the Conservatives was due in large part to the advocacy of free
trade with the United States by the Liberal Party. See J.M.S. Careless,

31 Holes Interview, February 18, 1971.
Neither has the New Democratic Party criticized the Agreement on the basis of its political effects or because of the way it inhibits the potential development of a Canadian industrial strategy. The T.A.B. funds were also made available to automobile workers who suffered dislocation as a result of the Agreement and thereby defused the original criticism of the Agreement of the New Democratic Party spokesman Reid Scott. Edward Broadbent, who is Mr. Scott's successor as the New Democratic Party critic of the Agreement, has argued for a strengthening of the production safeguards which are attached to the Agreement.34 Since most of Mr. Broadbent's constituents (in Oshawa-Whitby) are employed in the automotive industry, it would be difficult for him to argue for the abrogation of a trade arrangement which has increased employment among his electors. Mr. Broadbent's arguments do indicate an implicit recognition by him that the safeguards are the only guarantee that Canada has that automobile manufacturing will continue in this country while the Agreement is in effect.35

The economic benefits realized by the automobile industry through the Agreement, combined with the effective muting by the Liberal government, of such political opposition to the Agreement as did arise, have effectively overshadowed criticism which is based on Canada's long-term political interests or on the need for the Canadian government to develop an industrial strategy which encourages

34Canada, House of Commons, Debates (Ottawa, April 27, 1972), p. 1680.

35It should be noted that Mr. Broadbent's position is more to the left than that taken by some of his colleagues in the N.D.P. on trade matters. See Max Saltzman in Abraham Rotstein (ed.) An Industrial Strategy for Canada (Toronto, 1972).
the full utilization of Canada's human resources.

Opposition critics of the Agreement in the House of Commons, government officials, and spokesmen in the public service are opposed in general, to a free trade arrangement in automobiles and parts with the United States. The American administration is equally determined that free trade in automobiles and parts will replace the present Automobile Agreement. Given this choice the Canadian government's best choice would seem to be the abrogation of the Agreement to help ensure the automobile production is continued in this country rather than just the distribution of automobiles. In choosing this alternative the government will have taken a step toward maintaining the viability of Canada's political nationality and at the same time such a decision may well provide the government with the opportunity to embark on the development of a Canadian industrial strategy which is designed in Canada to meet Canadian requirements.

The Automobile Agreement is instructive to the Canadian government in two ways. First, the Agreement demonstrates that rationalization in a sector of industry can be carried out at the encouragement of the government. The rationalization process can bring about the long range development of a particular industry in Canada more readily if the process is carried out within Canada according to Canadian political and economic needs. Second, the Agreement points out that a bilateral trade agreement made between Canada and the United States which is restricted to a particular industry sector tends to limit the Canadian government's influence on that sector of industry, particularly when that sector of industry
operates as wholly owned subsidiaries of United States-based operations.

Prior to the signing of the Automobile Agreement in 1965, the Canadian automobile industry was a replica in miniature of the United States automobile industry. The Automobile Agreement does give the Canadian automobile industry access to the United States automobile market, but the Canadian industry itself has been rationalized in such a way that it can only grow according to the North American demand for the automobiles manufactured in Canada, rather than developing according to the Canadian demand and taste for specific automobile models which could be produced in this country. The long-term development of Canada is not served by the Automobile Agreement which integrates the Canadian demand and taste in automobiles to North American standards set in the United States beyond the direct influence of the Canadian people.

The automobile industry in both Canada and the United States is the chief supporter of the Automobile Agreement which encourages a more integrated North American automobile industry. The industry supports the Agreement because the Canadian industry is integrated in a more economical North American scheme of production.

The Canadian political assessment of the Automobile Agreement is that it is successful and worthwhile because the efficiency of the automobile industry in Canada has increased, the number of Canadians employed in the industry has risen slightly, and the deficit in Canada's automobile trade balance with the United States has been reduced slightly. On the other hand, production decisions and taste
formation is not directly subject to Canadian requirements, Canadian workers through their international union leadership have demanded wage parity and job security with their American counterparts, and Canada has found that the United States objects to the continuation of the Agreement because the Canadian trade deficit in automobiles has been reduced although not eliminated. The Canadian production "safeguards" have contributed to each of these situations, but more important, the safeguards encourage only the growth rather than the development of the Canadian automobile industry according to the growth overall in North America of the automobile industry.

The United States political assessment of the Automobile Agreement is one of dissatisfaction. The United States government would prefer a free trade agreement in the automobile industry in Canada. The production "safeguards" in the Agreement have aroused American ire because these prevent free trade which the United States seems to think it was bargaining for in 1965 and because the "safeguards" have reduced the American surplus in automobile trade with Canada. It seems to me that the main reason the United States has not moved directly to abrogate the Automobile Agreement is the influence of the American automobile industry, which, as I have pointed out, is fully satisfied with the Agreement.

Canada and the United States have not yet altered the Automobile Agreement via normal negotiations. Instead, the United States has initiated a series of trade measures which do not put direct pressure on the Automobile Agreement, but which do attempt to elicit trade concessions from Canada. The Canadian government has
responded to the United States' ten percent surcharge on imports and "DISC" programs, not by altering or ending the Automobile Agreement which is what the United States seems to want, but rather by subsidizing the operation of Canadian industry in the United States market through the Employment Support Bill and through the tax incentives provided for the industry in the May 1972 budget.

The Canadian government found that the rationalization of the automobile industry in this country on a North American basis has meant that this country purchases 7.5 percent of the overall North American automobile production just as was the case prior to 1965. The Canadian automobile industry now meets 5 percent of that demand compared to 4.5 percent before the Automobile Agreement came into effect. The Canadian government should learn that the United States government is interested in trade arrangements such as the Automobile Agreement to the extent that the latter feels a surplus in trade could be maintained or increased by such an arrangement. The chances of the United States achieving a trade surplus are, it seems to me, dramatically improved when a free trade arrangement is negotiated in an industry sector which has American-based parent companies.

The Automobile Agreement is like any other policy that is developed in that the actual policy in its working form does not distinguish between what the policymakers intended and what the
output of the policy process actually turns out to be. On the basis of the evidence which I have examined, I submit that the output of the Automobile Agreement undermines the validity of those non-economic motivations which I have defined as Canada's political interests. Furthermore, the output of the Automobile Agreement, to the extent that it inhibits the development of a Canadian industrial strategy similar in kind to the one mentioned above, denies Canadians the freedom to set their own priorities.

The Automobile Agreement serves further to entrench automobile production and consumer taste for automobiles on a north-south axis and in a North American context. The reluctance of Canadian automobile manufacturers to serve certain markets, because these markets are legally unavailable to their American parent firms, is reinforced rather than discouraged by the Agreement. The Agreement therefore restricts Canadian international trade and vicariously Canadian foreign relations. A further result of the Automobile Agreement is the demand for wage parity by the automobile workers union. Such a demand does not allow for the development of appropriate Canadian wage and social security policies in the automobile industry in Canada as long as the Agreement which was the catalyst for this demand, remains in existence. As a result of the integrative nature of the Automobile Agreement, it seems likely that a pricing policy will be developed within the automobile industry for all of North America, there is as yet no direct evidence of this phenomenon, which does not adhere directly to Canadian tax and monetary policies. I contend that none of these outputs of the Automobile Agreement are in Canada's long term political interest.
As a result of the Automobile Agreement, the locus of decision-making for the Canadian automobile is more than ever based in the United States. This result of the Agreement restricts the development of Canadian management skills within the automobile industry in Canada. As a result of the Agreement, research and development in the automobile industry has moved exclusively to the United States which clearly retards the development of Canadian engineering, technical, and scientific personnel engaged in research and development within the automobile industry in this country. The Automobile Agreement has not promoted Canadian participation in the ownership of the Canadian automobile industry, nor was it the intention of the Agreement to do so. Nor has the existence of the Automobile Agreement had any affect on the export limitations which continue to apply to the Canadian automobile industry. The net output of the Automobile Agreement is to move the thrust of Canadian policy away from, rather than toward, the maximum development of Canadian human and industrial resources as integral facets of a Canadian industrial strategy.

After the Presidential election in the United States in November, 1972, and after the general election which is expected in Canada in 1972, there will likely be drastic changes made in the Automobile Agreement. I agree with Mr. Barr that the present safeguards are going to be dropped, and the most likely mutually convenient time is immediately after an election in each country.

36 Barr Interview, August 3, 1971.
provided that the government of each country has a strong mandate with which to negotiate. Unlike Mr. Barr, I cannot see how replacement safeguards can be implemented which would at the same time guarantee Canadian control over automobile production and a favourable balance of trade position for the United States with regard to North American automobile production. It is a distinct possibility then that by 1974 the Automobile Agreement will be abrogated despite D.C. Thom's statement that this eventuality is "inconceivable without some kind of replacement" in view of the specialization which has occurred in the Canadian segment of the industry and in view of the reapplicable tariff. There is no doubt that the abrogation of the Automobile Agreement would bring about political and economic changes and even dislocation, but I do not believe these effects would be permanent nor do they necessarily need to be disastrous.

The abrogation of the Automobile Agreement would leave the automobile industry, eventually, about in the position it was in 1964, except that the industry is much more specialized. The government would do well to encourage and perpetuate the kind of specialization which has developed in the automobile industry in Canada. For example, American Motors now produces seven automobile models in Canada, compared to the twenty-one models it manufactured in Canada prior to 1965. There will be no need for a national publicly-owned automobile company in Canada as long as the automobile industry which presently operates in Canada is able to meet and

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37 One year's notice is required if either country wishes to abrogate the Agreement, see the Appendix.

38 Thom Interview, August 3, 1971.
specialize in what seems to be the Canadian preference for compact
and middle-size automobiles. In this way, the Automobile Agreement
could reach its most fruitful conclusion in Canada. On the other
hand, the government may wish to apply some or all of the recommend­
ations of the Bladen commission to the Canadian automobile industry
so as to attempt to expand the industry by "making removal of the
tariff on imports conditional upon export performance", as
Dean Bladen suggested.

The development of the automobile industry suggests a course
of action which the Canadian government should undertake not only on
behalf of the automobile industry, but on behalf of all industry in
Canada in order to ensure that all industry in Canada is responsive
to Canadian needs. The government should require full financial
disclosure of all Canadian operations including foreign controlled
corporate entities. Further, the Canadian government should ensure
that full cost pricing, both in and out, is required in all Canadian
subsidiary operations so that the parent firm is made aware that it
is doing business in a foreign country and so that greater financial
autonomy and the promotion of Canadian equity becomes a feature of
such operations. The government should direct that Canadians be
made members of the boards of directors of all industry operating
in Canada and that some of these people should not otherwise be
associated with the particular company on whose board they serve.
The Canadian government should order the liberalization of tax
laws to facilitate the training of Canadian managerial personnel

who will serve in Canada upon the completion of their training, particularly in international business operations. Finally, the Canadian government, in concert with other countries which experience similar difficulties, should order that all foreign-owned subsidiaries should be required to abide by Canadian law and policy, whenever these laws are in conflict with the law, policy and financial disclosure requirements of the country of the parent firm.

If the Automobile Agreement leads to action of this type by the Canadian government, Canada's future economic and political requirements are more likely to be achieved according to Canadian specifications. Perhaps the most fruitful outcome of the Automobile Agreement would be the realization by the Canadian government and by the Canadian public that the viability of Canada's political nationality is at least as important as the economic well-being of Canada's corporate citizens and that those considerations should be viewed as being complementary to each other.
AGREEMENT CONCERNING AUTOMOTIVE PRODUCTS
BETWEEN THE GOVERNMENT AND THE UNITED STATES OF AMERICA
AND THE GOVERNMENT OF CANADA

The Government of the United States of America and the
Government of Canada,

Determined to strengthen the economic relations between
their two countries;

Recognizing that this can best be achieved through the
stimulation of economic growth and through the expansion of markets
available to producers in both countries within the framework of
the established policy of both countries of promoting multilateral
trade;

Recognizing that an expansion of trade can best be achieved
through the reduction or elimination of tariff and all other barriers
to trade operating to impede or distort the full and efficient
development of each country's trade and industrial potential;

Recognizing the important place that the automotive
industry occupies in the industrial economy of the two countries
and the interests of industry, labor and consumers in sustaining
high levels of efficient production and continued growth in the
automotive industry;

Agree as follows:

Article I

The Governments of the United States and Canada, pursuant
to the above principles, shall seek the early achievement of the
following objectives:

(a) The creation of a broader market for automotive
products within which the full benefits of specialization and
large-scale production can be achieved;
(b) The liberalization of United States and Canadian automotive trade in respect of tariff barriers and other factors tending to impede it, with a view to enabling the industries of both countries to participate on a fair and equitable basis in the expanding total market of the two countries;

(c) The development of conditions in which market forces may operate effectively to attain the most economic pattern of investment, production and trade.

It shall be the policy of each Government to avoid actions which would frustrate the achievement of these objectives.

Article II

(a) The Government of Canada, not later than the entry into force of the legislation contemplated in paragraph (b) of this Article, shall accord duty-free treatment to imports and products of the United States described in Annex A.

(b) The Government of the United States, during the session of the United States Congress commencing on January 4, 1965, shall seek enactment of legislation authorizing duty-free treatment of imports of the products of Canada described in Annex B. In seeking such legislation, the Government of the United States shall also seek authority permitting the implementation of such duty-free treatment retroactively to the earliest date administratively possible following the date upon which the Government of Canada has accorded duty-free treatment. Promptly after the entry into force of such legislation, the Government of the United States shall accord duty-free treatment to the products of Canada described in Annex B.

Article III

The commitments made by the two Governments in this Agreement shall not preclude action by either Government consistent with its obligations under Part II of the General Agreement on Tariffs and Trade.

Article IV

(a) At any time, at the request of either Government, the two Governments shall consult with respect to any matter relating to this Agreement.
(b) Without limiting the foregoing, the two Governments shall, at the request of either Government, consult with respect to any problems which may arise concerning automotive producers in the United States which do not at present have facilities in Canada for the manufacture of motor vehicles, and with respect to the implications for the operation of this Agreement of new automotive producers becoming established in Canada.

(c) No later than January 1, 1968, the two Governments shall jointly undertake a comprehensive review of the progress made towards achieving the objectives set forth in Article I. During this review the Governments shall consider such further steps as may be necessary to desirable for the full achievement of these objectives.

Article V

Access to the United States and Canadian markets provided for under this Agreement may by agreement be accorded on similar terms to other countries.

Article VI

This Agreement shall enter into force provisionally on the date of signature and definitively on the date upon which notes are exchanged between the two Governments giving notice that appropriate action in their respective legislatures has been completed.

Article VII

This Agreement shall be of unlimited duration. Each Government shall however have the right to terminate this Agreement twelve months from the date on which that Government gives written notice to the other Government of its intention to terminate the Agreement.

In witness whereof the representatives of the two Governments have signed this Agreement.

Done in duplicate at Johnson City, Texas, this 16th day of January 1965, in English and French, the two texts being equally authentic.

For the Government of the United States of America:

For the Government of Canada:
1. (1) **Automobiles:** when imported by a manufacturer of automobiles.

(2) All parts, and accessories and parts thereof, except tires and tubes, when imported for use as original equipment in automobiles to be produced in Canada by a manufacturer of automobiles.

(3) **Buses:** when imported by a manufacturer of buses.

(4) All parts, and accessories and parts thereof, except tires and tubes, when imported for use as original equipment in buses to be produced in Canada by a manufacturer of buses.

(5) **Specified commercial vehicles:** when imported by a manufacturer of specified commercial vehicles.

(6) All parts, and accessories and parts thereof, except tires, tubes and any machines or other articles required under Canadian tariff item 456a to be valued separately under the tariff items regularly applicable thereto, when imported for use as original equipment in specified commercial vehicles to be produced in Canada by a manufacturer of specified commercial vehicles.

2. (1) "Automobile" means a four-wheeled passenger automobile having a seating capacity for not more than ten persons;

(2) "Base year" means the period of twelve months commencing on the 1st day of August, 1963 and ending on the 31st day of July, 1964;

(3) "Bus" means a passenger motor vehicle having a seating capacity for more than 10 persons, or a chassis therefor, but does not include any following vehicle or chassis therefor, namely an electric trackless trolley bus, amphibious vehicle, tracked or half-tracked vehicle or motor vehicle designed primarily for off-highway use;

(4) "Canadian value added" has the meaning assigned by regulations made under section 273 of the Canadian Customs Act;

(5) "Manufacturer" of vehicles of any following class, namely automobiles, buses or specified commercial vehicles, means, in relation to any importation of goods in respect of which the description is relevant, a manufacturer that
(i) produced vehicles of that class in Canada in each of the four consecutive three month periods is the base year, and

(ii) produced vehicles of that class in Canada in the period of twelve months ending on the 31st day of July in which the importation is made,

(A) the ratio of the net sales value of which to the net sales value of all vehicles of that class sold for consumption in Canada by the manufacturer in that period is equal to or higher than the ratio of the net sales value of all vehicles of that class produced in Canada by the manufacturer in the base year to the net sales value of all vehicles of that class sold for consumption in Canada by the manufacturer in the base year, and is not in any case lower than seventy-five to one hundred; and

(B) the Canadian value added of which is equal to or greater than the Canadian value added of all vehicles of that class produced in Canada by the manufacturer in the base year;

(6) "Net sales value" has the meaning assigned by regulations made under section 273 of the Canadian Customs Act; and

(7) "Specified commercial vehicle" means a motor truck, motor truck chassis, ambulance or chassis therefor, hoarse or chassis therefor, but does not include:

(a) any following vehicle or a chassis designed primarily therefor, namely a bus, electric trackless trolley bus, amphibious vehicle, tracked or half-tracked vehicle, golf or invalid cart, straddle carrier, motor vehicle designed primarily for off-highway use or motor vehicle specially constructed and equipped to perform special services or functions, such as, but not limited to, a fire engine, mobile crane, wrecker, concrete mixer or mobile clinic, or

(b) any machine or other article required under Canadian tariff item 438a to be valued separately under the tariff item regularly applicable thereto.

3. The Government of Canada may designate a manufacturer not falling within the categories set out above as being entitled to the benefit of duty-free treatment in respect of the goods described in this annex.
Annex B

(1) Motor vehicles for the transport of persons or articles as provided for in items 692.05 and 692.10 of the Tariff Schedules of the United States and chassis therefor, but not including electric trolley buses, three-wheeled vehicles, or trailers accompanying truck tractors, or chassis therefor.

(2) Fabricated components, not including trailers, tires, or tubes for tires, for use as original equipment in the manufacture of motor vehicles of the kinds described in paragraph (1) above.

(3) Articles of the kinds described in paragraphs (1) and (2) above include such articles whether finished or unfinished but do not include any article produced with the use of materials imported into Canada which are products of any foreign country (except materials produced within the customs territory of the United States), if the aggregate value of such imported materials when landed at the Canadian port of entry, exclusive of any landing cost and Canadian duty, was —

(a) with regard to articles of the kinds described in paragraph (1), not including chassis, more than 60 percent until January 1, 1968, and thereafter more than 50 percent of the appraised customs value of the article imported into the customs territory of the United States; and

(b) with regard to chassis of the kinds described in paragraph (1), and articles of the kinds described in paragraph (2), more than 50 percent of the appraised customs value of the article imported into the customs territory of the United States.
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INTERVIEWS


