

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/2800
20 June 1967

Limited Distribution

Original: English

UNITED STATES IMPORTS OF AUTOMOTIVE PRODUCTS

First Annual Report by the United States

The attached report on the operation of the Decision of 20 December 1965 (BISD, 14 Sup., pp. 37-42) has been transmitted by the Government of the United States for the information of CONTRACTING PARTIES.

The Decision of the CONTRACTING PARTIES of 20 December 1965 authorized a waiver of United States obligations under paragraph 1 of Article I of the General Agreement, to permit the United States to accord duty free treatment to certain automotive products imported from Canada under the Agreement Concerning Automotive Products between the United States and Canada. In accordance with the provisions of that Decision and the procedures adopted by the CONTRACTING PARTIES on 1 November 1956, the following report covering the period 18 January 1965 to 31 December 1966 is submitted to the CONTRACTING PARTIES.

I. Summary

Stimulated by buoyant economic conditions, motor vehicle production in both the United States and Canada has been at or near record levels. Together with the effects of the Agreement, this has led to a very significant expansion of trade. Total automotive trade between the United States and Canada in 1964 was \$730 million; in 1965, \$1,084 million; and \$2,086 million in 1966.

The increase in trade reflects shifts of production between the two countries as manufacturers take advantage of the opportunity to rationalize production and distribution. Production plans in 1967 model year show an intensification of the rationalization process. Thus, some model lines formerly produced in Canada are now being imported from the United States, while Canada, benefiting from specialization, is producing fewer models with longer production runs.

¹These and other statistics in this report are drawn from the President's First Annual Report to the Congress on the Implementation of the Automotive Products Trade Act of 1965.

At the same time, United States imports of automotive products from third countries have showed a significant increase, from \$643 million in 1964 to \$665 million in 1965, rising to \$970 million in 1966. Because Canadian and United States manufacturers produce similar car models significantly different from cars produced outside North America, consumer preference can be expected to continue to provide a strong market for imports from other sources.

II. Implementation of the Automotive Products Trade Act of 1965

The implementation of the Automotive Products Trade Act of 1965 primarily required the modification of the Tariff Schedules of the United States and the establishment of the Automotive Agreement Adjustment Assistance Board.

Modification of TSUS - A Presidential Proclamation dated 21 October 1965 modified the Tariff Schedules of the United States to accord duty-free treatment to certain automotive products imported from Canada, effective 20 December 1965 (as listed IAS BISD pp. 39-42). This treatment was applied retroactively to these articles entered from Canada on or after 18 January 1965 (the date on which the Canadian Government's Order in Council establishing duty-free treatment on similar products became effective). The addition of three classes of wiring products, which through oversight had been omitted from the original Proclamation, was notified to the CONTRACTING PARTIES on 29 September 1966 (L/2688).

Automotive Agreement Adjustment Assistance Board - The Act provides that under special procedures that will be in force until 30 June 1968, firms or groups of workers may petition the President for a certification of eligibility to apply for adjustment assistance. Thereafter, the general procedures of the Trade Expansion Act would become applicable. The relief made available to firms and workers under the Act is essentially the same as that provided in the Trade Expansion Act of 1962. Workers who are certified eligible for assistance may receive up to \$73 weekly for 52 weeks plus other benefits including relocation allowances and subsistence payments. Firms certified as eligible for adjustment assistance may obtain loans for land, plant and equipment, and in some cases working capital; technical assistance; and certain forms of tax relief.

In the period between the date the Act was passed (21 October 1965) and 31 December 1966, five petitions to the Board for determinations of eligibility to apply for adjustment assistance were submitted by groups of workers. No petitions were submitted by firms. By the end of 1966, four of these groups had been certified as eligible to apply for adjustment assistance. 1,142 of the workers have filed individual claims for assistance and 819 of these have been determined to be eligible for benefits.

III. Production in the Motor Vehicle Industry, United States and Canada

Among the objectives of the agreement is "the creation of a broader market for automotive products within which the full benefits of specialization and large scale production can be achieved". United States production, being much greater, is affected by the agreement to a lesser degree than production in Canada.

Motor vehicle production in the United States increased from 9.3 million units in 1964 to 11.1 million units in 1965 and declined slightly to 10.4 million units in 1966. Canadian motor vehicle production increased from 671,000 in 1964 to 855,000 in 1965 and to 907,000 in 1966.

IV. United States trade

Canada is the single most important customer for United States merchandise exports and the leading supplier of United States imports. Overall United States exports to Canada amounted to \$6.6 billion in 1966, while imports from Canada totalled \$6.1 billion. In 1966 Canada accounted for about 22.6 per cent of United States imports and 24 per cent of United States exports. While Canada's share of United States imports has increased by little more than 1 per cent from 1964 to 1966, the share of United States exports going to Canada has increased from 19.4 per cent in 1964 to 23 per cent in 1966.

Trade in motor vehicles and motor vehicle parts between the United States and Canada - The period of time which has elapsed since the agreement came into force is too limited to provide the statistical basis for a fully adequate appraisal of trends. The trade figures show a marked increase in the flow of automotive products in both directions, partly as a result of the Agreement and partly because of increased prosperity and continued business expansion in both countries. Trade in automotive products between the two countries is also influenced by the normal changes in manufacturing programmes and marketing plans.

The automotive industries in the two countries are similar in structure. In each country the same four companies account for more than 90 per cent of total output. Furthermore, Canadian factories produce essentially the same basic types of cars as United States factories.

The resulting trade pattern between the two countries is unique. The bulk of the automotive trade in both directions has been in automobile parts and accessories, most of which are for use in the production of vehicles. This is in sharp contrast to the United States automotive trade patterns with other major automotive producing countries and the general world automotive trade pattern.

The Canadian and United States markets are natural extensions of each other, the two parts forming what is in most respects a single North American market. Both United States and Canadian consumption show similar patterns. Both markets overwhelmingly choose automobiles of North American design and make.

Automotive products' trade between the United States and Canada (exports plus imports) reached \$736 million in 1964. Exports from the United States were \$654 million and imports were \$76 million. During 1965, the first year of the Agreement, total automotive products' trade with Canada expanded by 48 per cent from 1964, increasing to \$1.1 billion; exports to Canada were \$888 million and imports were \$196 million. Total automotive trade reached \$2.1 billion in 1966 with exports to Canada of \$1.3 billion and imports of \$600 million.

United States trade in motor vehicles and motor vehicle parts with countries other than Canada - Automotive trade with countries other than Canada between 1964 and 1965 was relatively stable on the import side, \$643 and \$665 million respectively; exports to these countries increased from \$1.1 billion in 1964 to \$1.2 billion in 1965. Exports to countries other than Canada in 1966 were \$1.0 billion, while imports rose to \$970 million. Primary characteristics of trade with these countries are the excess of cars imported over cars exported, and predominance of trucks exported over trucks imported, and exports of parts and accessories at many times the import figures. Parts and accessories account for about one half of United States automotive exports to countries other than Canada.

Automotive trade with principal motor vehicle producing countries - Besides the United States and Canada, the other major motor vehicle producing countries are West Germany, the United Kingdom, France, Italy, Sweden and Japan.

United States imports from West Germany were \$417 million in 1964, \$432 million in 1965 and \$647 million in 1966, the greater part of which is passenger cars. Exports to West Germany were \$28 million, \$36 million and \$32 million respectively.

Imports from the United Kingdom, preponderantly passenger cars, were \$113 million in 1964, \$104 million in 1965 and \$131 million in 1966; exports consisted almost entirely of parts and accessories and amounted to \$22 million, \$34 million and \$32 million respectively.

United States automotive imports from France were \$36 million in 1964, \$24 million in 1965 and \$33 million in 1966, predominantly passenger cars. Exports to France for the same periods were \$21 million, \$23 million and \$20 million respectively.

United States automotive imports from Italy were \$17 million in 1964, \$15 million in 1965 and \$20 million in 1966, also largely passenger cars. Exports to Italy for the same periods were \$8 million in each of these years.

United States automotive imports from Sweden were \$30 million in 1964, \$42 million in 1965 and \$56 million in 1966, predominantly passenger cars. Exports to Sweden for the same periods were \$27 million, \$29 million and \$27 million respectively.

United States automotive imports from Japan were \$20 million in 1964, \$35 million in 1965 and \$71 million in 1966. Exports to Japan for the same periods were \$24 million, \$18 million and \$17 million respectively.

Automotive trade with remaining countries - The remaining countries accounted for 14 per cent of the total United States exports of automotive products in 1966, but less than 1 per cent of United States imports.

Trade in allied industries - In addition to the increase in trade in automotive products, increases in trade in closely allied industries have occurred as a consequence of plant expansion and increased automotive production resulting from the agreement. Items such as machine tools, automotive maintenance equipment, paints and chemicals, automotive lubrication equipment and metals are not under the agreement but are inseparable companions to increased automotive production. Unfortunately, statistics are not available which can specifically measure trade changes for these products resulting from the agreement.

V. Conclusion

It is apparent from the figures quoted in Parts I and IV that imports into the United States from countries other than Canada have continued to grow at a substantial rate in the short period that the United States-Canadian automotive Products agreement has been in effect. Experience through the end of 1966 bears out the expectation of the United States that the agreement would contribute to a rationalization of the automotive industries in the two countries. Moreover, traditional exporters to the United States have not experienced any significant trade diversion.

No requests for consultations under paragraph 2 of the Decision of 20 December 1965 have been made by any of the contracting parties as a result of the operation of this agreement.