The attached report on the operation of the Decision of 20 December 1965 (BISD, Fourteenth Supplement, pages 37-42) has been transmitted by the Government of the United States.

The Decision of the CONTRACTING PARTIES on 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 United States-Canada Automotive Products Agreement. In accordance with the provisions of that Decision and the procedures adopted by the CONTRACTING PARTIES on 1 November 1956, the following report covering 1967 is submitted to the CONTRACTING PARTIES.

I. Summary

Automotive products trade between the United States and Canada continued to increase in 1967 reaching a total two-way level of more than $3.3 billion compared with $730 million in 1964.¹

The Agreement has led to increased specialization with longer and more efficient production runs. Some Canadian-assembled vehicles are exported to the United States, while other models which are no longer manufactured in Canada are imported from the United States.

At the same time, United States imports of motor vehicles and parts from third countries increased from $670 million in 1965, to $975 million in 1966, and $1 billion in 1967. Because Canadian and United States manufacturers produce similar car models that are significantly different from cars produced outside North America, consumer preferences continue to provide a strong demand for imports from third countries.

¹These and other statistics in this report are drawn from the President's Second Annual Report to the Congress on the Implementation of the Automotive Products Trade Act of 1965.
In accordance with Article IV(c) of the Agreement, the two Governments began in December 1967 a joint review of experience under the Agreement during which they are considering whether any further steps are now necessary or desirable for the full achievement of the Agreement objectives. The review is expected to be completed by the summer of 1968.

II. Production in the motor vehicle industry, United States and Canada

Market conditions and strikes resulted in a decline of about 1.3 million vehicles produced in the combined United States-Canadian industry in 1967 compared with 1966. Total North American production of motor vehicles in 1967 was 10 million units. Production in the United States alone of 9 million units was about 284,000 units under the production in 1964 and substantially below the totals for 1965 and 1966. Canada produced 947,000 vehicles - an increase of 45,000 units over 1966.

III. United States trade

Canada is the single most important trading partner of the United States. Total two-way trade between the two countries exceeded $14 billion in 1967. United States exports to Canada totalled $7.2 billion, while imports from Canada amounted to $7.1 billion. Canada in 1967 accounted for 23.5 per cent of total United States exports and 26.5 per cent of total United States imports. In 1967, the United States received 64.2 per cent of Canadian exports and supplied 72.4 per cent of Canadian imports.

Trade in motor vehicles and motor vehicle parts between the United States and Canada - A rapid expansion of automotive trade between the United States and Canada has occurred since the Agreement became effective. Firms are taking advantage of the Agreement to rationalize and specialize their productive facilities. The gap between higher production costs in Canada and lower United States costs has narrowed.

Total automotive products trade between the United States and Canada (exports plus imports) was $730 million in 1964. During 1965, the first year of the Agreement, total two-way trade increased to $1.1 billion and to $2.2 billion in 1966. In 1967, total automotive trade amounted to over $3.3 billion. These figures are based on United States trade statistics. (See discussion below of problems encountered with United States and Canadian automotive trade statistics.)

This trade expansion is largely attributable to the Agreement, although contributing factors include increased prosperity and continuing business expansion in both countries. Manufacturers have also modified production programmes, revised marketing plans, and changed sourcing of parts to take advantage of opportunities provided by the Agreement. There has been an increasing movement of assembled vehicles to the United States, offset in part
by increased United States exports of parts to Canada. It is estimated that on an average approximately 50 per cent of the parts in passenger cars coming into the United States from Canada were produced in the United States.

The Canadian and United States automotive markets are natural extensions of each other and together increasingly form what is in most respects a single North American market. Consumption patterns in both Canada and the United States are similar. Consumers in both markets predominantly choose automobiles of North American design and make, and these are produced primarily by the same four companies in both countries.

Trade statistics - Serious statistical problems arise in compiling United States and Canadian automotive trade figures. All imports from Canada of vehicles and original equipment automotive parts are precisely identified in United States trade data as a result of the import classifications established by the Automotive Products Trade Act. The difficulty is that export classes are not so detailed and do not identify as "automotive" substantial exports, particularly of parts, which enter Canada duty free as a result of the Automotive Agreement. Thus, United States export statistics are not fully comparable with United States automotive import statistics. Canada faces a similar problem with its trade data and both United States and Canadian automotive export figures are understated relative to automotive imports. This difficulty has become more serious as the North American automotive industry becomes progressively rationalized and integrated, resulting in increased shipments of automotive components and semi-fabricated parts. Because of this problem there is an increasing divergence between United States and Canadian trade figures. United States data show relatively low United States automotive exports while Canadian import data show substantially higher levels of automotive imports from the United States.

Careful investigation has indicated that the most accurate and comprehensive measure of total automotive trade between the United States and Canada in the period 1964-67 would be the import statistics of the two countries. The following table has been constructed on the basis of United States Bureau of Census and Canadian Dominion Bureau of Statistics data to assure as comparable coverage as possible. This table encompasses all automotive products trade between the two countries - both duty-free trade under the provisions of the Agreement and dutiable, i.e. replacement parts or other automotive products not included under the Agreement.
UNITED STATES-CANADIAN AUTOMOTIVE TRADE
BASED ON UNITED STATES AND CANADIAN IMPORT DATA
(US$ million)

<table>
<thead>
<tr>
<th>Subject</th>
<th>1964</th>
<th>1965</th>
<th>1966</th>
<th>1967</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States exports to Canada ²:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passenger cars</td>
<td>41.0</td>
<td>116.0</td>
<td>291.8</td>
<td>613.0</td>
</tr>
<tr>
<td>Trucks, buses, chassis</td>
<td>21.2</td>
<td>41.7</td>
<td>86.1</td>
<td>133.8</td>
</tr>
<tr>
<td>Parts and accessories</td>
<td>597.1</td>
<td>771.7</td>
<td>1,037.9</td>
<td>1,254.3</td>
</tr>
<tr>
<td>Total exports</td>
<td>659.3</td>
<td>929.4</td>
<td>1,415.9</td>
<td>2,001.1</td>
</tr>
<tr>
<td>United States imports from Canada:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passenger cars</td>
<td>21.9</td>
<td>84.1</td>
<td>370.7</td>
<td>818.0</td>
</tr>
<tr>
<td>Trucks, buses, chassis</td>
<td>4.7</td>
<td>23.7</td>
<td>158.3</td>
<td>269.9</td>
</tr>
<tr>
<td>Parts and accessories</td>
<td>49.3</td>
<td>139.2</td>
<td>360.2</td>
<td>474.1</td>
</tr>
<tr>
<td>Total imports</td>
<td>75.9</td>
<td>247.0</td>
<td>889.1</td>
<td>1,562.0</td>
</tr>
<tr>
<td>United States net exports</td>
<td>583.4</td>
<td>682.4</td>
<td>526.8</td>
<td>439.1</td>
</tr>
</tbody>
</table>

¹Tyres and tubes not included. Figures may not add to totals due to rounding.

²As measured by Canadian import statistics.

³Preliminary and subject to revision.

⁴Canadian imports of parts and accessories in 1966 and 1967 adjusted to include coverage of products comparable to United States automotive parts imports from Canada.

United States trade in motor vehicles and motor vehicle parts with countries other than Canada - United States automotive imports from countries other than Canada increased from $670 million in 1965, to $975 million in 1966, and $1 billion in 1967. Imports of passenger cars alone represented over $880 million in 1967. Exports to countries other than Canada have remained relatively stable over the same period, totalling $1.1 billion in 1965, $1.2 billion in 1966, and $1.1 billion in 1967.

Automotive trade with principal motor vehicles 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. Over 99 per cent of United States imports of automotive products originate in these countries.

United States total automotive imports from West Germany were $434 million in 1965, $649 million in 1966, and $638 million in 1967. More than 90 per cent of these imports were passenger cars. Exports of United States automotive products to West Germany were $31 million, $32 million and $35 million in the corresponding years.

Total automotive imports from the United Kingdom, of which more than 85 per cent were passenger cars, were $105 million in 1965, $132 million in 1966, and $120 million in 1967, making the United Kingdom the third largest supplier of automotive products to the United States. Imports from Japan, also mainly passenger cars, rose rapidly from $36 million in 1965 to $104 million in 1967. Automotive exports to the United Kingdom, consisting almost entirely of parts and accessories, totalled $30 million in 1965, $35 million in 1966, and $32 million in 1967. Automotive exports for the same years to Japan, consisting almost equally of passenger cars and parts and accessories, were $17 million, $19 million, and $20 million respectively.

United States automotive imports from France were $24 million in 1965, $33 million in 1966 and $26 million in 1967. Exports to France in the same period were $22 million, $21 million, and $20 million, respectively.

From Italy the United States imported automotive products valued at $15 million in 1965, $20 million in 1966 and $26 million in 1967. Exports to Italy were $8 million in 1965 and about $9 million in both 1966 and 1967.

In 1965 the United States imported $42 million in automotive products from Sweden, in 1966, $56 million, and in 1967, $76 million, almost exclusively passenger cars. United States exports to Sweden of automotive products in the same period were $29 million, $28 million, and $19 million, respectively.
IV. Conclusion

Imports of automotive products into the United States from Canada and other countries have continued to grow during the period that the United States-Canadian Automotive Products Agreement has been in effect. The Agreement has continued to contribute to a rationalization of the automotive industries in the two countries and automotive trade between them has expanded greatly. Moreover, traditional automotive 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 contracting party.