OPENING STATEMENT MADE BY THE REPRESENTATIVE OF THE UNITED STATES

I would like first to express the appreciation of my delegation to the members of this Working Party for their willingness to meet to consider the matter before us.

This Working Party was established to consider the request of my Government for a waiver, in accordance with the provisions of paragraph 5 of Article XXV of the General Agreement, to permit the Government of the United States, notwithstanding the provision of paragraph 1 of Article I of the General Agreement, to eliminate certain duties imposed on automotive products of Canada without being required to extend the same treatment to like products of any other contracting party. This request arises from the United States/Canadian Automotive Products Trade Agreement signed by President Johnson and Prime Minister Pearson on 16 January 1965.

The text of the Agreement was circulated on 27 January 1965 as document L/2339, and during the course of the twenty-second session of the CONTRACTING PARTIES, a Working Party was established to examine the Agreement and any aspects of the Agreement relevant to the General Agreement and to report to the CONTRACTING PARTIES. The report of the Working Party was circulated as document L/2409.

I would like now to review briefly the background of the United States/Canadian Automotive Agreement, to explain why a waiver has been requested and to lay before this Working Party the reasons my Government believes a waiver is justified.

At the earlier Working Party, the representatives of the United States and Canada explained the special features of the North American automotive industry that gave rise to the Agreement. Unlike the situation in any other two countries, the vast majority of Americans and Canadians drive identical automobiles. The Canadian automotive industry is, for the greatest part, an offshoot of the United States industry. More than 90 per cent of the motor vehicles produced in Canada are manufactured by firms that are subsidiaries of United States vehicle manufacturer firms. Not surprisingly, therefore, the Canadian industry is marked by the same characteristics as the industry in the United States in respect of organization, production methods and, indeed, in its products. Both branches of
the common industry produce the same types of vehicles with fully interchangeable components and sell to consumers who demand and receive the same variety of identical models and types of vehicles. There is, moreover, the factor of geographic proximity. I have in mind here not merely the fact that the United States and Canada are neighbouring countries. Rather, I refer to the fact that the bulk of automotive production of the two countries takes place in an area surrounding the Great Lakes - an area which offers great advantages to motor vehicle production in terms of availability of land, labour, materials, power and transportation.

These factors which characterize the automotive industries of the United States and Canada - geographic proximity, close corporate relationships, interchangeability of products and identical consumer demand - make for a unique situation, even as compared with other industrial relationships between the United States and Canada.

It has become increasingly clear in recent years that the automotive industries of the United States and Canada constituted in reality a single North American industry, and that the customs border which lay in its middle was an anomaly, giving rise to artificial and uneconomic practices. It is the objective of the United States-Canada Automotive Products Trade Agreement to correct the anomaly. In simple terms, the Agreement seeks to eliminate customs and other hindrances, and, by permitting the rationalization of production on a North American basis, to permit the industry through more complete integration to realize its full potential for the benefit of the economies of both countries.

I think it is unnecessary to review the terms of the Agreement in detail. The Agreement was closely examined by the previous Working Party. My delegation would, of course, be happy to answer any questions about any aspect of the Agreement. I would, however, like to turn to that feature of the Agreement that gives rise to the waiver request by the Government of the United States that is the particular concern of this Working Party. The Agreement provides that the United States would extend duty-free treatment to imports of vehicles and original parts of Canadian origin and did not contemplate that similar treatment would be extended to automotive products imported into the United States from other countries. This feature of the Agreement was carried over into the implementing legislation recently enacted by the Congress.

My Government has recognized that this approach gives rise to an inconsistency with paragraph 1 of Article I of the General Agreement. However, it is our view that the inconsistency is a technical one since the operation of the Agreement will not divert or adversely affect the trade of other contracting parties. I would like to explain why we believe this is so.

Members of the Working Party will recall that the Agreement provides for duty-free treatment for vehicles and for original parts, that is, parts for assembly into new vehicles. Replacement or service parts, as will be further recalled, are not covered by the Agreement and remain dutiable as before.
The North American automotive industry is virtually self-sufficient in production of original parts. One familiar with this industry would not expect United States auto producers, with rare exceptions to be willing to subject the rigid demands of assembly line production techniques to the uncertainties of overseas supply. In fact our consultations with United States vehicle manufacturers have confirmed this. It is also borne out by a recent excellent survey article by the London Economist of 23 October 1965 entitled "Cars and Their Components". This article brings out clearly a situation which is not unique to United States manufactures. Imports of original components are the rare exception for a variety of reasons, the most important of which are problems of reliability, delivery, cost and problems of transport.

It is clear that imports of original parts by United States vehicle manufacturers are the rare exception. Where such trade occurs we have found that it is the result of special situations such as the temporary lack of capacity in domestic manufacturing facilities. These factors will not be affected by the United States-Canadian Agreement. It follows that the United States-Canadian Agreement will not affect to any significant or measurable extent of original parts from third countries.

As regards trade in assembled vehicles, we are convinced, on the basis of careful study, that no trade diversion affecting third countries will result from the United States-Canadian Agreement. Well over 90 per cent of total North American automotive production is located in the United States. The price of vehicles in the United States will not be affected by the removal of duties on vehicles from Canada. There will, therefore, be no change in the competitive situation in the United States market as between United States produced vehicles and those imported from overseas sources. United States imports of vehicles from third countries will, therefore, not be affected by the Agreement.

Representatives of the United States have been asked why, given the present low United States duties on automotive products, the United States does not apply the duty elimination now on a most-favoured-nation basis, thus avoiding the inconsistency with Article I of the General Agreement and the need for a waiver. I wish to say in all candour that my Government gave the most serious consideration to this possibility. The Administration considered, however, that it was not politically feasible to take such action at this time. Bearing in mind the present volume of our imports of automotive products, the discriminatory situation facing North American type vehicles in many countries and, finally, the fact that the United States-Canada Agreement will not adversely affect the trade interests of any other contracting party, my Government concluded that it should not extend on a most-favoured-nation basis the duty-free treatment to products from third countries.
The United States is now, and will remain, the world’s largest importer of vehicles. We have the lowest import duties on vehicles and do not impose non-tariff barriers on imported vehicles. Assuming a successful Kennedy Round, it is possible to envisage United States duties on imported cars of about 3 per cent and duties on parts of 4 per cent. Following the Kennedy Round, we would expect to consider again the complete removal of United States duties on imported automotive products.

I stated earlier that my Government recognizes that the approach it has adopted is inconsistent with the letter of Article I. It is because we are convinced that no contracting party will suffer trade damage that we firmly believe there is no inconsistency with the underlying purpose of Article I. This in our view is the kind of situation envisaged by paragraph 5 of Article XXV which provides:

"In exceptional circumstances not elsewhere provided for in this Agreement, the CONTRACTING PARTIES may waive an obligation imposed upon a contracting party by this Agreement..."

We believe that the United States-Canada Agreement represents an exceptional circumstance in the sense provided in paragraph 5 of Article XXV.

In stating that the departure from Article I is technical in nature, I wish to emphasize that my Government does not thereby minimize its significance. We therefore propose to seek a waiver that is limited in its terms and is clearly conditional upon the absence of trade diversion. Since we do not intend or anticipate that the Agreement will cause any trade diversion, we think it is fit and appropriate for the waiver to lapse where any substantial trade damage to the products of any contracting party is established by the CONTRACTING PARTIES. My delegation has prepared a draft of a waiver which is illustrative of the limited and conditional kind of waiver we have in mind and believe may be appropriate in the circumstances. In the expectation that this draft may be helpful to the members of the Working Party in their consideration of the United States request, we are prepared to circulate it at this time.

My delegation is at the disposal of the Working Party to answer any questions or to proceed in any manner you may wish.