



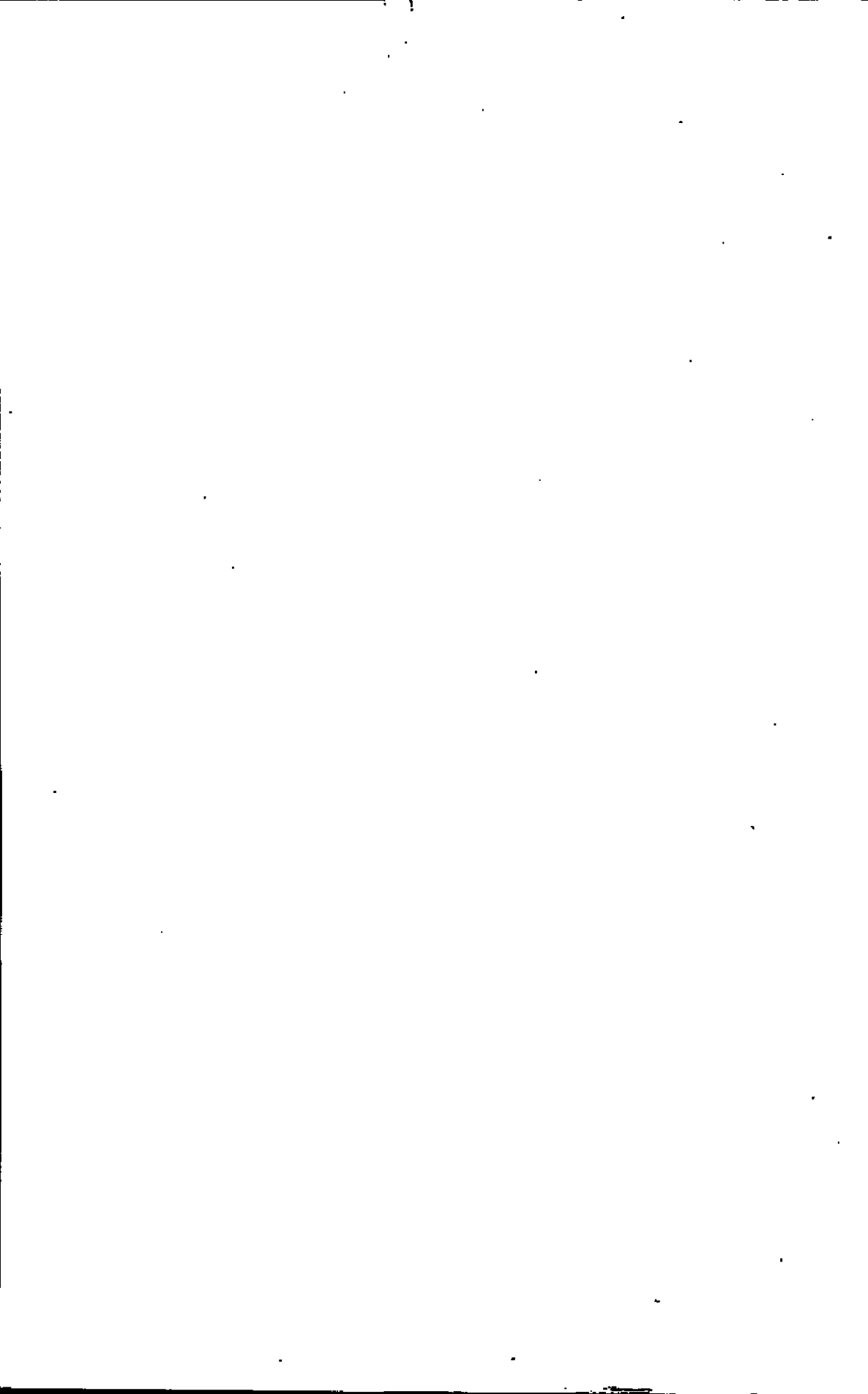
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Report

Royal Commission on the Automotive Industry

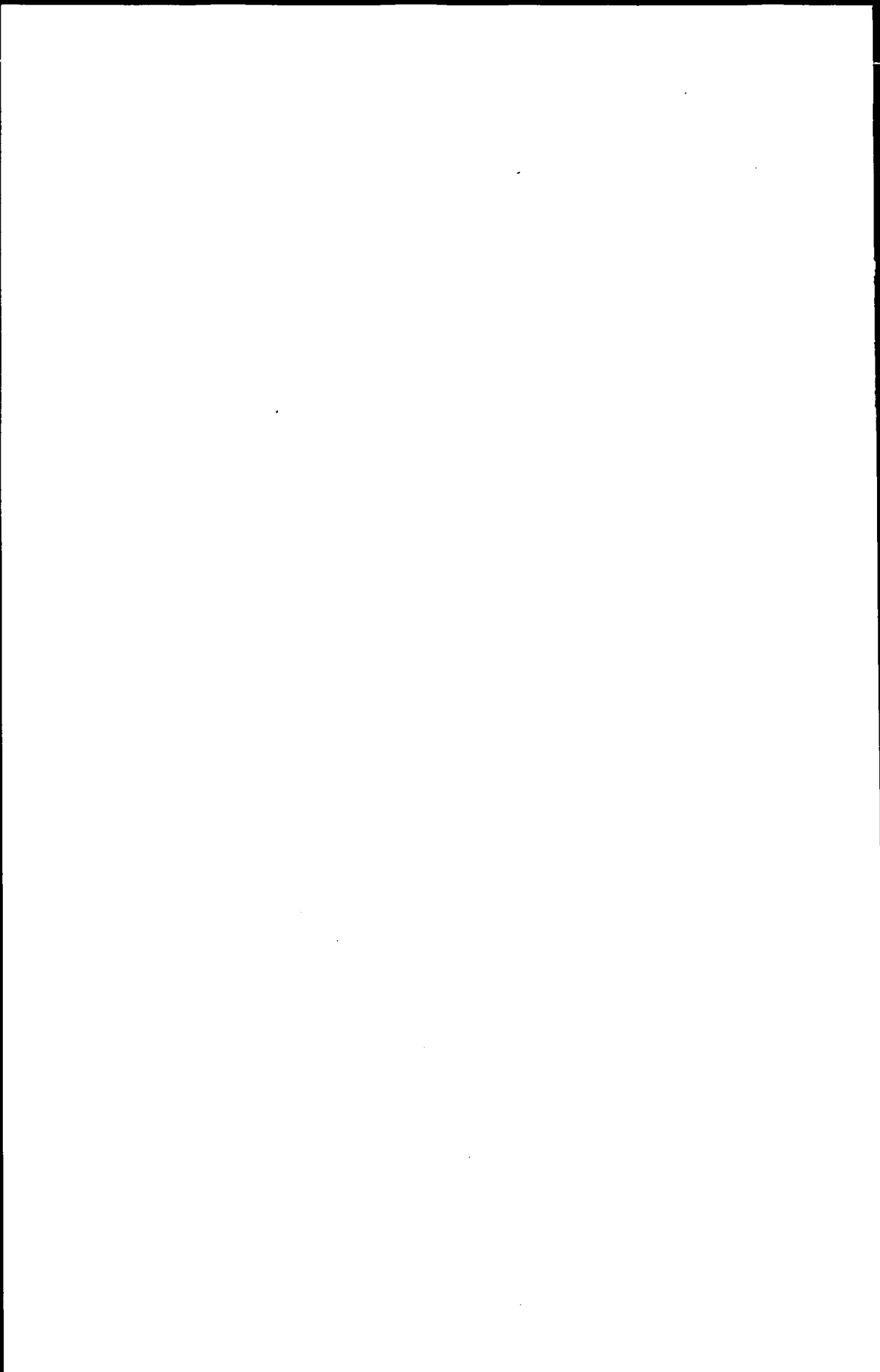
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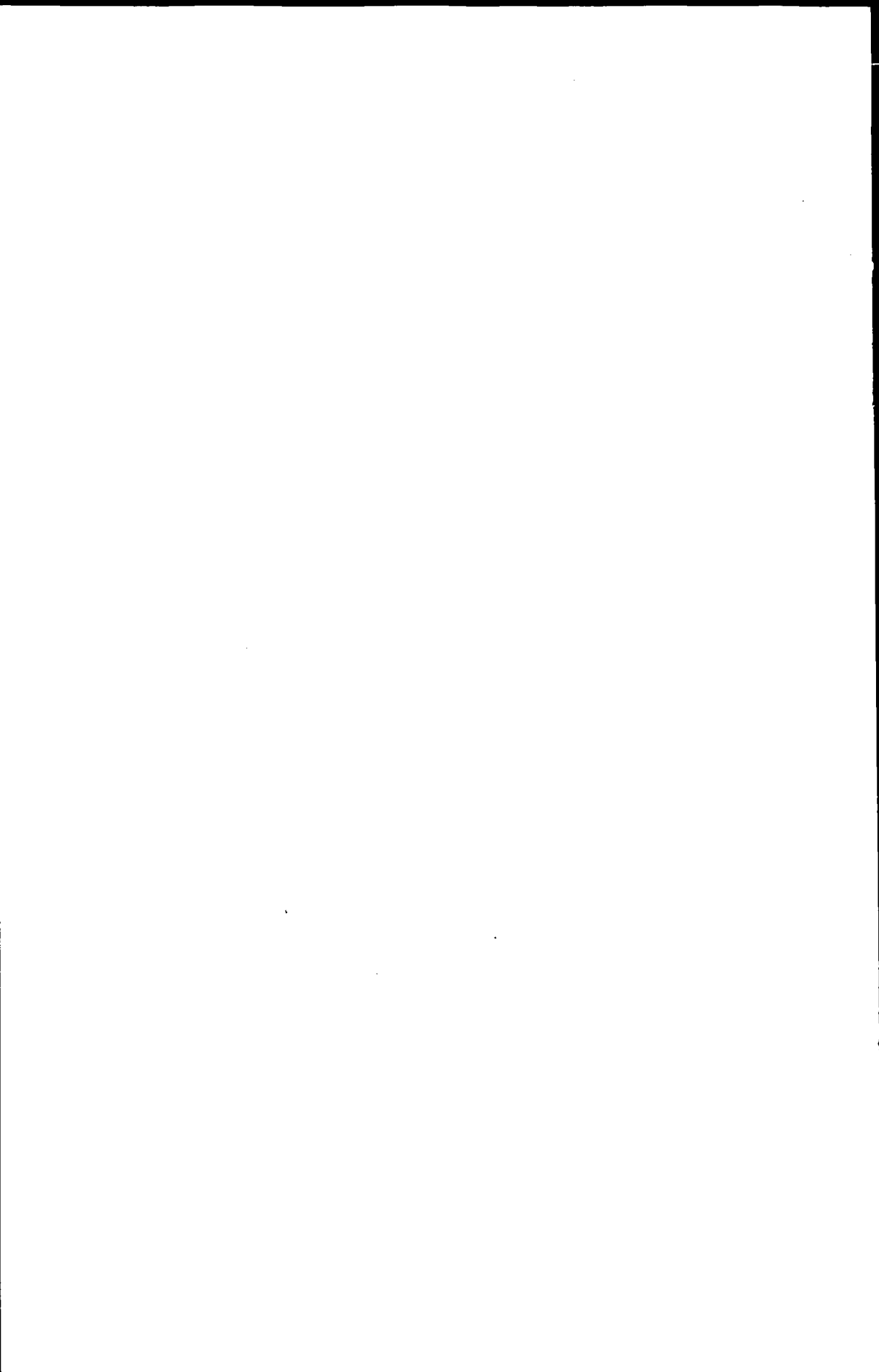
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REPORT

ROYAL COMMISSION ON
THE AUTOMOTIVE INDUSTRY



REPORT
ROYAL COMMISSION
ON THE
AUTOMOTIVE INDUSTRY

APRIL, 1961

ROGER DUHAMEL, F.R.S.C. OTTAWA
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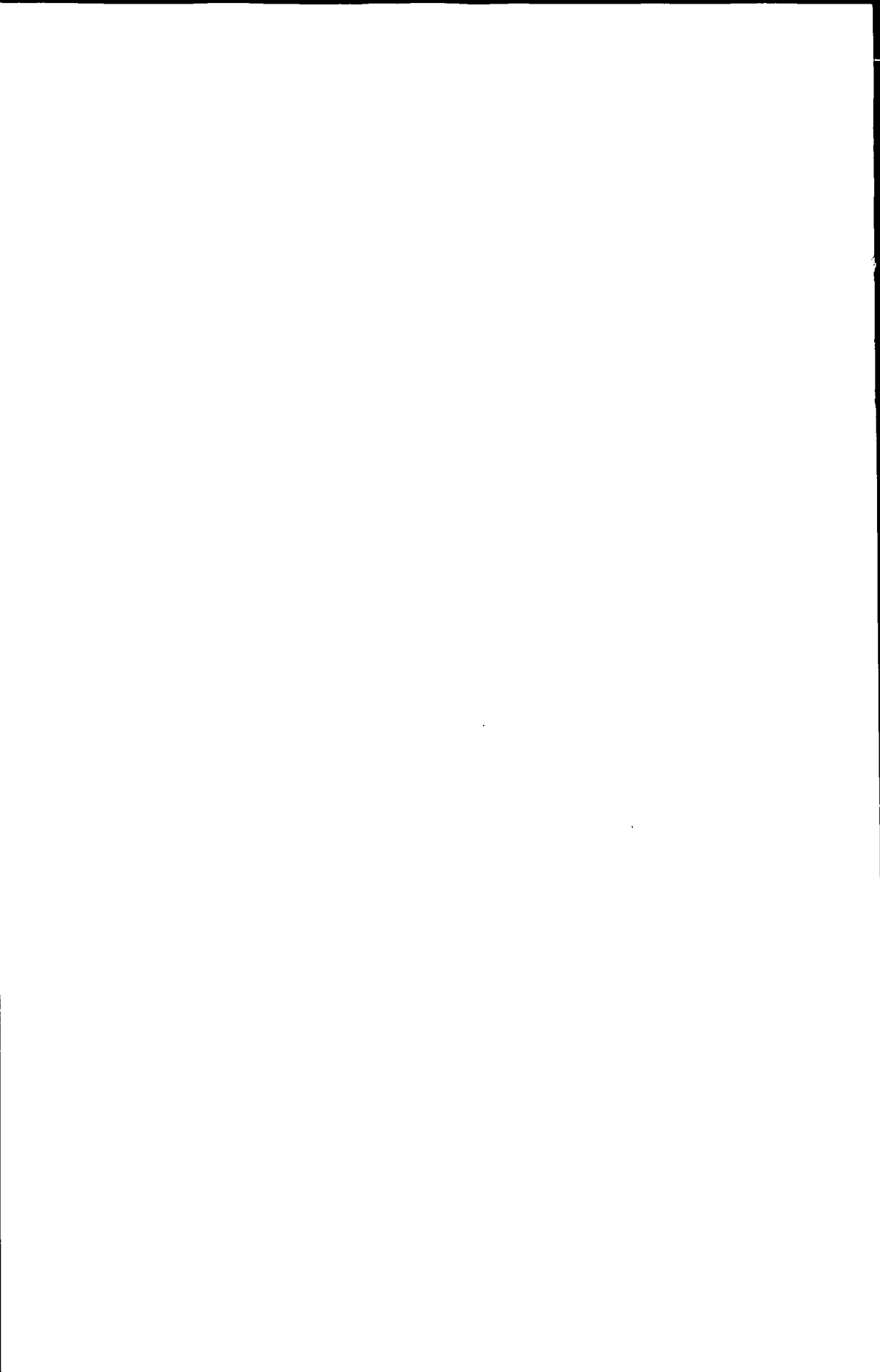
TO HIS EXCELLENCY

THE GOVERNOR GENERAL IN COUNCIL,

MAY IT PLEASE YOUR EXCELLENCY,

I, the Commissioner, appointed as a Royal Commission in accordance with the terms of Order in Council P.C. 1960-1047 of August 2, 1960, to inquire into and report upon the situation of and prospects for the industries in Canada producing motor vehicles and parts therefor:

BEG TO SUBMIT TO YOUR EXCELLENCY
THE FOLLOWING REPORT.



CONTENTS

	PAGE No.
Letter of transmittal	vii
Acknowledgements	xiii
 <i>CHAPTER I</i>	
NATURE OF THE INVESTIGATION	1
 <i>CHAPTER II</i>	
THE HISTORICAL CONTEXT	5
Early History	5
The Industry and the Tariff before 1936	6
Tariff Revision, 1936	8
Developments, 1936-1945	10
Developments since 1945	11
The World Context	12
Prospects for Further Development	18
Sales and Excise Taxes	19
 <i>CHAPTER III</i>	
THE STRUCTURE OF THE INDUSTRY	21
Degree of Integration	22
Materials and Processes	24
Production of Parts	25
Economies of Scale	26
Research	29
Employment	29
Tariff and the Low-Volume Automobile Producer	30

Contents

CHAPTER IV

	PAGE No.
TARIFF ADMINISTRATION	33
Value for Duty	33
"Made in Canada" Status	36
Method of Tariff Change	37
Content Requirement	37

CHAPTER V

PROPOSALS MADE IN THE BRIEFS PRESENTED TO THE COMMISSION	39
Automobile Manufacturers	39
Automotive Parts Manufacturers	41
Workers in the Industry	42
Consumer and Export Interests	44
Importers	45
Other Briefs	45
Commercial Vehicles	47
Discussion of the Proposals	47

CHAPTER VI

RECOMMENDATIONS	57
List of Recommendations	58
1. Removal of the Excise Tax	60
2. Base for the Application of Sales Tax	60
3. "Notional" Wholesale Price as the Base for Sales Tax	63
4. British Preferential Tariff Rate on Automobiles	64
5. British Preferential Tariff Rate on Automotive Parts	66
6. Canadian Content	66
7. Extended Content Plan	67
(a) Conditional Free Entry of Vehicles and Parts	68
(b) "Notional" Content	69
(c) Total Canadian Market as the Base for Content	70
(d) Unit of Organization for Extended Content	71
(e) Content Schedule for Passenger Automobiles	72
(f) Content Schedule for Commercial Vehicles	73
(g) Failure to Meet the Content Requirements	73

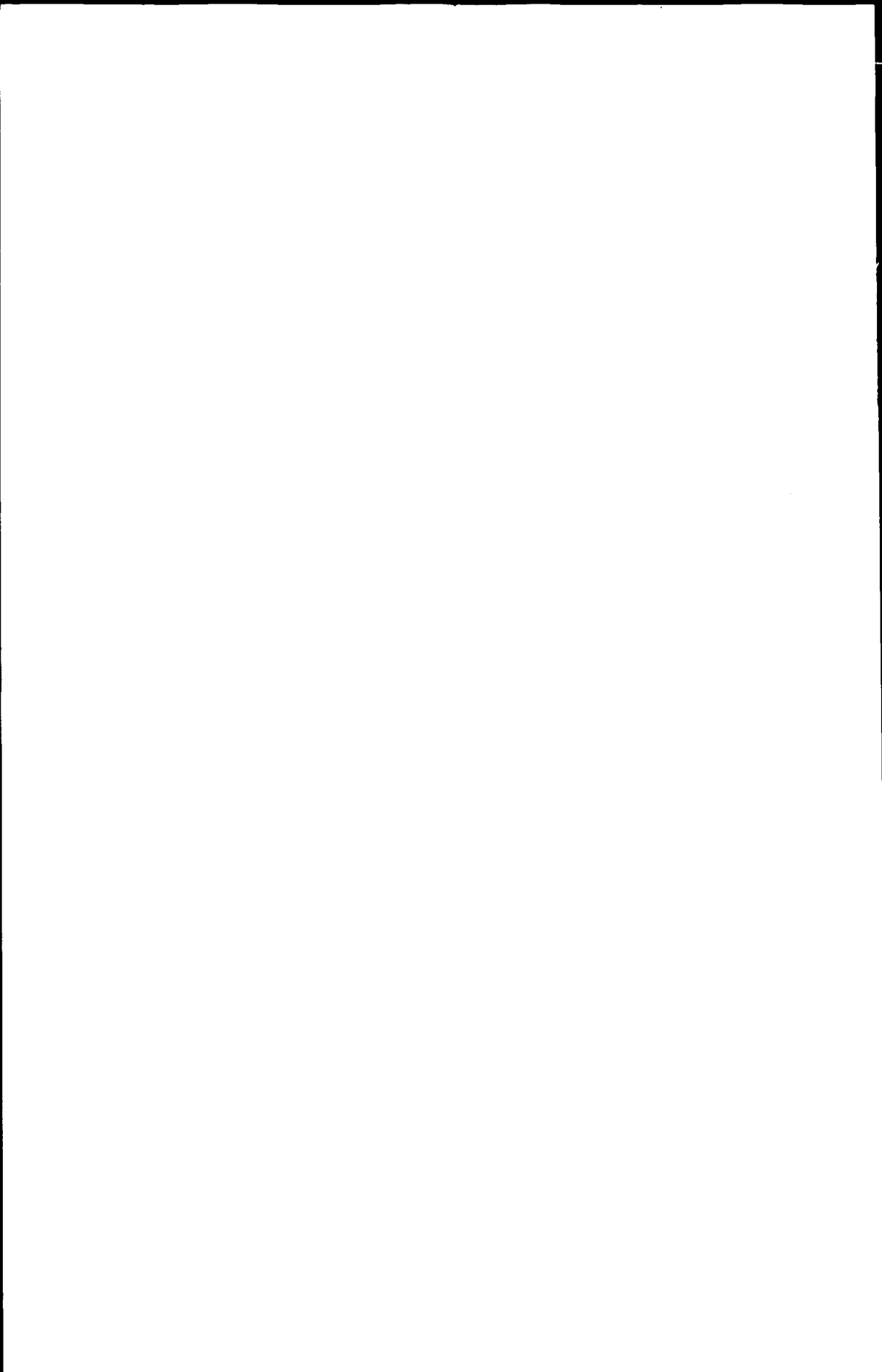
Contents

CHAPTER VII

	PAGE No.
CONCLUSION	75

APPENDICES

I Orders in Council and Commission of Appointment	81
II Staff of the Commission	85
III Public Briefs Submitted to the Commission	87
IV Companies Visited by the Commission	89
V Excerpts from the Customs Tariff and Regulations Pertaining to Automobiles and Automotive Parts	91
VI Statistics:	
Table I Production, Exports and Imports of Motor Vehicles—Canada, 1925-1960	101
Table II Production of Motor Vehicles, by Manufacturers—Canada, 1947-1960....	102
Table III Motor Vehicles Produced in Canada and Imported for Sale in Canada in 1959, by Manufacturers and Country of Origin	103
Table IV Imports of Motor Vehicles into Canada, by Country of Origin, 1946-1960	104
Table V Production of Motor Vehicles in the Main Motor Vehicle Producing Countries, 1925-1960	105
Table VI Exports of Motor Vehicles from the Main Motor Vehicle Exporting Countries, 1925-1960	106
Table VII Value for Duty and Duty Collected—Automotive Products in Canada, 1950-1960	107
Table VIII Illustration of the Effect on Canadian Content Requirements of the Extended Content Proposals—Passenger Automobiles	108
Table IX Excise Tax Collected on Passenger Automobiles in Canada, 1955-1960....	110



Acknowledgements:

AS SOLE Commissioner, I have been even more dependent on my staff than Commissioners usually are. I cannot express adequately my thanks to all of them for their support and for their patience in meeting the vagaries of a professor who was allergic to the routines of government and who was at times unduly distracted by continuing University responsibilities.

I am most grateful to the Minister of Finance, the Minister of Trade and Commerce and the Governor of the Bank of Canada for lending members of their staff. I wish to acknowledge the contributions and advice which I received from Professor H. C. Eastman, Professor D. G. Hartle, Professor S. G. Hennessey and Professor S. Stykolt, of the University of Toronto, and I also wish to thank Professor W. G. Phillips of Assumption University who prepared a special study on the agricultural implement industry.

I also express my thanks to the Canadian Ambassador in Washington, to the Consul General in Detroit, to the Canadian High Commissioner in London, to the Canadian Minister in Paris, to the Canadian Ambassadors in Bonn and Stockholm for their kindly assistance in relation to my visits outside of Canada.

I express my thanks to all those in the industry in Canada, as well as in the United States, the United Kingdom, France, West Germany and Sweden. I am grateful to all those in Government offices at home and abroad who have responded to my requests for assistance, particularly members of the Departments of Finance, National Revenue and Trade and Commerce.

Finally, I express my thanks to Mr. Pierre Daviault and his staff for the work done by the Bureau for Translations and to the Queen's Printer, Mr. Roger Duhamel, and his staff for the rapid production of a publication with a high standard of excellence.

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Chapter I

Nature of the Investigation

FOLLOWING my appointment as Commissioner by Order in Council P.C. 1960-1047 (*see* Appendix I (i)) and the appointment of Miss Elizabeth Leitch as Secretary of the Commission by Order in Council P.C. 1960-1186 (*see* Appendix I (ii)), and having established an office in the William Lyon Mackenzie Building in Toronto, I invited representatives of the automobile manufacturers, the automotive parts manufacturers, the United Automobile Workers, the principal importers from the United Kingdom and Europe, and some other interested groups to a meeting in the Senate Chamber of the University of Toronto. The purpose was to introduce myself, to explain the nature of the investigation that I proposed, and to ask for the co-operation of all parties in the investigation. I explained at that time that I did not consider this investigation to be one which sought to find fault or to assess blame, but one concerned with diagnosis of economic ills and prescription of remedies. I expressed the hope that briefs would be submitted and indicated my willingness to accept and study confidential briefs. I announced my intention of holding public hearings in Ottawa at which I would hear and discuss submissions from any party who, having submitted a public brief, had requested to be heard. I made it known at that time that I did not propose to employ counsel and I expressed the hope that those who appeared at the Hearings would speak for themselves rather than through counsel. Finally, I asked them to provide me, on their own initiative, with the information that they thought I ought to have and I gave notice that, after my study of the submissions and after clarification of these submissions in the Hearings, I would request from some of them whatever additional information that I would then know that I needed.

Royal Commission on the Automotive Industry

Following this meeting, I published, on August 22, 1960, an advertisement in 38 newspapers and magazines across Canada. In it, I invited written submissions from anyone who could help me in my inquiry. I offered to consider privately submissions marked "Confidential", and I announced that public hearings would be held in Ottawa at which any who had submitted public briefs would be heard if they so requested.

In response to these requests, and in part spontaneously as a result of press publicity about the inquiry, I received many submissions varying from short letters to substantial briefs. A list of the 64 *public* briefs is given in Appendix III. In addition, I received 41 *confidential* briefs and some 80 other expressions of opinion. I have considered that my undertaking to accept certain communications as confidential precludes even the listing of the names of those who submitted them. All were given careful consideration and many of them were followed by private discussion.

Public hearings were held in Ottawa from October 24 to 28, 1960, in Room 112N of the House of Commons. Submissions from the following were heard:

<i>Monday,</i> <i>October 24</i>	General Motors of Canada, Limited Ford Motor Company of Canada, Limited Chrysler Corporation of Canada, Limited
<i>Tuesday,</i> <i>October 25</i>	Government of Ontario Studebaker-Packard of Canada, Limited American Motors (Canada) Ltd. The Society of Motor Manufacturers and Traders Limited Volkswagen Canada Ltd. Council of the Forest Industries of British Columbia
<i>Wednesday,</i> <i>October 26</i>	Interprovincial Farm Union Council The United Automobile Workers (UAW-CLC) Local 444 of the U.A.W.-AFL-CIO The National Canadian General Motors Intra-Corporation Council of the U.A.W. Windsor Unemployed Committee Greater Windsor Industrial Commission
<i>Thursday,</i> <i>October 27</i>	Automotive Parts Manufacturers' Association (Canada) Tool & Die Manufacturers' Association of Canada Primary Steel Industry of Canada The Rubber Association of Canada Canadian Co-operative Wheat Producers Limited

Nature of the Investigation

Friday, Government of Saskatchewan
October 28 The Canadian Federation of Agriculture
Canadian Automobile Association
Mr. Johannes Alasco
Research, Development & Surveys Associates Ltd.
Professor H. E. English

A verbatim record of the Hearings was made and a copy will be sent to the Dominion Archivist along with the other documents of the Commission.

Following the Hearings, I requested from the automobile manufacturers certain statistical material to complement the data already publicly available. In January, I called for summaries of their annual financial statements for the decade of the fifties. All this information I requested on a confidential basis. Study of it has given me greater confidence in the conclusions which I have reached. This material, including the confidential briefs, will be deposited with the Dominion Archivist and remain sealed for twenty-five years.

In addition to studying written submissions and published materials, I visited the plants of the automobile manufacturers and of a considerable number of manufacturers of parts and materials. These visits enabled me to acquire some familiarity with the processes of production and I found that discussion of the problems of the industry in the course of these plant visits was most valuable. This included discussion not only with all levels of management, including superintendents and foremen, but also with union officers. A list of the plants visited in Canada will be found in Appendix IV.

Shortly after the Hearings, I went to Detroit for discussions with the management of the parent companies of the five Canadian automobile manufacturers. In the course of this visit, I went to two automatic transmission plants (the Detroit Transmission Division of General Motors Corporation at Ypsilanti and the Livonia Transmission Plant of the Ford Motor Company). I also had a meeting with officers of the United Automobile Workers at Solidarity House.

I next went to the United Kingdom and visited the following plants: Ford Motor Company Limited at Dagenham; Vauxhall Motors Limited at Luton; Standard-Triumph International Limited at Coventry; Jaguar Cars Limited at Coventry; The British Motor Corporation Limited at Birmingham; Joseph Lucas Limited at Birmingham; The Rover Company Limited at Birmingham; Rootes Motors Limited at

Royal Commission on the Automotive Industry

Coventry. Again, there was opportunity for discussion as well as for seeing the manufacturing facilities. I also had discussions with representatives of Rolls-Royce Limited and S. Smith & Sons (England) Limited (makers of automatic transmissions). I next went to France where I visited the plants of the Régie Nationale des Usines Renault and of Simca Internationale and I had a discussion with the management of the Société Anonyme des Automobiles Peugeot. I then went to West Germany to see the engine plant and the main assembly plant of Volkswagenwerk AG. Finally, I went to Sweden to talk with the management of AB Volvo and to see its Göteborg plant.

New ideas, new proposals and new information continued to flow in, and study revealed gaps in my information that led to continued requests on my part for additional data. The final phase of the investigation was analysis and study of the material which had been assembled.

Chapter II

The Historical Context

IN ORDER to understand the current problems of the Canadian automotive industry, it is necessary to place them in their historical context. This requires examination of certain aspects of the development of the industry not only in Canada but also in the United States and in Europe.

Early History

The real beginning of the industry in Canada may be dated from 1904 when the Ford Motor Company of Canada was organized by a group of Windsor businessmen to manufacture and sell Ford products in Canada and elsewhere in the British Empire exclusive of the British Isles. At that time, little more was done beyond putting bodies and wheels on chassis ferried across the river from Detroit. The second major step in the development of the industry was taken in 1907 when R. S. McLaughlin designed and built an automobile in the plant of the McLaughlin Carriage Company at Oshawa. Recognizing the high cost of producing certain components in low volume, particularly the high cost of producing engines, the McLaughlin Company entered into a contract to buy engines from the Buick Motor Company of Flint, Michigan, and was given access to all of Buick's development work. In 1915, Mr. McLaughlin organized the Chevrolet Motor Company of Canada to produce Chevrolets in Canada under an agreement with the Chevrolet organization in the United States. The two McLaughlin companies were sold in 1918 to General Motors Corporation and were merged and organized as General Motors of Canada, Limited. The

Royal Commission on the Automotive Industry

Studebaker Company acquired manufacturing facilities at Walkerville in 1910; it ceased manufacturing in Canada shortly after the revisions in the Customs Tariff in 1936; it resumed production in Canada at Hamilton in 1948. The Chrysler Corporation of Canada was organized in 1921 with facilities at Windsor. The Nash Motor Company, predecessor of American Motors (Canada) Limited, was the last of the five companies now producing in Canada to enter the country; it began producing automobiles in Toronto in 1946, ceased this operation in 1957, but opened a new plant at Brampton in 1961.

These are the five companies now manufacturing passenger automobiles in Canada; three of them also manufacture commercial vehicles. There are other companies which manufacture trucks and buses including, for example, Canadian Car Company Limited, International Harvester Company, of Canada Limited and Sicard Incorporated.

There are hundreds of companies, large and small, that supply parts and materials for automobile manufacture. Their contribution is recorded in the next chapter in which the structure of the industry is analyzed. The fortunes of the companies and of the workers involved in these industries are so closely bound up with the fortunes of the automobile producers that the history of the latter is a major part of the history of the former.

The Industry and the Tariff before 1936

The automobile industry inherited from the carriage building industry a tariff protection of 35 per cent. This was a lower rate of duty than the rates in force in the United States and in France, and only slightly higher than that adopted by Great Britain in 1915. At this stage, the Canadian tariff on automobiles was designed primarily to protect the Canadian industry from imports from the United States. The Canadian tariff rate applicable to automobiles imported from Great Britain at that time was 22½ per cent and imports were negligible.

By 1926, the Canadian industry was producing 205,000 vehicles of which 167,000 were passenger automobiles and 38,000 were commercial vehicles. Employment in the motor vehicle manufacturing industry, not including that in industries which supply parts and materials, was about 12,000. This was a substantial industrial development

The Historical Context

for 1926 and an important part of the production was for export. Indeed, Canada exported 74,000 vehicles in that year and was a net exporter of 46,000 vehicles.

The Canadian consumer was becoming increasingly aware of the differential in price of similar automobiles produced in the United States and in Canada. In 1926, the rates of duty on automobiles were reduced. The significant reduction was that in the general rate which applied to imports from the United States; the rate on vehicles valued at not more than \$1200 was reduced from 35 per cent to 20 per cent, and that on vehicles valued at over \$1200 to 27½ per cent. As a result of these reductions in the tariff on finished vehicles, the tariff on parts had to be revised to give relief to the automobile manufacturers who had lost a substantial part of their protection. A number of parts and accessories of a class or kind not manufactured in Canada were made free of duty when imported as original equipment. More important was the provision for drawback of a portion of the duty paid on certain imported parts if at least 50 per cent of the factory cost of producing the finished vehicle was incurred in the British Empire. Finally, exemption from the 5 per cent excise tax was given to cars valued at not more than \$1200 if they qualified as to Empire content. These revisions relating to "content" seem to have met the needs of the automobile manufacturer. Production increased. In 1929, 263,000 vehicles were produced; exports were 102,000 and imports were 45,000, two-thirds of which were from the United States. Achievement of this level of exports was made possible by the advantages which the Canadian automobile industry derived from the strength of its United States connection and by the preference which it enjoyed in certain Empire markets.

In the depression following 1929, the automobile industry in Canada, as in the United States, experienced a very severe reduction in output. In Canada, the output of passenger cars and commercial vehicles fell from 263,000 units in 1929 to 61,000 units in 1932, and, in the United States, the output fell from 5.4 million units in 1929 to 1.4 million units in 1932.

Before the next comprehensive reassessment of the tariff on automobiles in 1936, three substantial changes were made. The first, in 1931, was the introduction for duty purposes of a third value bracket:

Royal Commission on the Automotive Industry

a rate of 40 per cent was established on passenger automobiles valued at more than \$2100. The second, in 1932, was the provision of duty-free entry for all motor vehicles imported from the United Kingdom. So unimportant did this concession appear to be for the Canadian automobile industry that little attention was paid to it in the Tariff Board Inquiry of 1936. The third change was made at the beginning of 1936 when, under the Canada-United States Trade Agreement, the United States was accorded the Intermediate Tariff rates of 17½ per cent on automobiles valued at not more than \$1200, 22½ per cent on those valued at over \$1200 but not more than \$2100, and 30 per cent on those valued at over \$2100, in place of the General Tariff rates of 20 per cent, 30 per cent and 40 per cent respectively.

Tariff Revision, 1936

In 1936, after detailed examination and report by the Tariff Board, the tariff on automobiles was further reduced and the tariff on parts completely overhauled. The rate of duty on all motor vehicles, irrespective of value, became 17½ per cent under the Intermediate Tariff, which was then the most important Tariff since it applied to imports from the United States. Provision was made for an increase by Order in Council to 22½ per cent if imports had a serious effect on Canadian production. The new tariff on automotive parts substituted for the cumbersome "domestic drawback", a system of conditional free entry. The condition was twofold: the parts were to be of a "class or kind not made in Canada", and for some parts there was the further condition that certain "content" requirements be met. It should be noted that the "content" was still to be Empire (later Commonwealth) rather than Canadian, but this continued to be of little significance since the only source of imported parts for Canadian production was the United States.

The tariff items, as they now read, are reprinted in full in Appendix V. Fundamentally, they are the same as those established in 1936. The principal items may be briefly described as follows:

- 438a This item establishes the rate on motor vehicles: free under the British Preferential Tariff, 17½ per cent under the Most-Favoured-Nation Tariff.

- 438b This item covers a list of products generally used by the parts industry in the manufacture of motor vehicle parts. These products are free of duty if of a class or kind not made in Canada, and they are subject to a 17½ per cent rate of duty under the Most-Favoured-Nation Tariff if of a class or kind made in Canada. In either case, they are free under the British Preferential Tariff.
- 438c This item covers a long list of parts generally used by the automobile manufacturers. For this item, the double condition must be met if entry is to be duty-free; the part must be of a class or kind *not* made in Canada and a content requirement must be met: 40 per cent of the factory cost of passenger automobiles if production is less than 10,000 units, 50 per cent if the production is more than 10,000 units but does not exceed 20,000, and 60 per cent if production exceeds 20,000 units. If these conditions are not met, these parts are subject to the 17½ per cent rate of the Most-Favoured-Nation Tariff. Again, parts are free of duty under the British Preferential Tariff.
- 438d This item covers a list of parts used in the manufacture of commercial vehicles. Again, the double condition must be met in order to qualify for duty-free entry under the Most-Favoured-Nation Tariff but the Commonwealth content requirement is 40 per cent, whatever the scale of production. Parts are duty-free under the British Preferential Tariff.
- 438f This item covers all the parts not specifically provided for under the above items. The rates are free under the British Preferential Tariff and 25 per cent under the Most-Favoured-Nation Tariff.

The logic of conditional free entry of automotive parts may be stated as follows. There are many parts the cost of which in the United States, with its high volume of production, is so much lower than in Canada, with its much lower volume of production, that even high rates of duty would not suffice to induce the Canadian automobile manufacturer to buy or produce them in Canada. If a duty were imposed, these parts would still be imported, the Government would

Royal Commission on the Automotive Industry

collect revenue, the Canadian consumer would pay more for his automobile, and the Canadian parts manufacturers might well find that the higher prices of automobiles would reduce sales and thus reduce the demand for those parts which they could and did produce. Such is the logic of free entry if the parts are of a "class or kind not made in Canada". The content requirement offers an ingenious alternative to protection by duty. Without specifying what particular parts must be made in Canada, it requires that manufacturers incur in Canada a certain proportion of their factory cost of production. The manufacturer is left to discover what particular part of production should be undertaken in Canada if the additional cost imposed by the necessity of meeting the content requirement is to be reduced to a minimum. This method should, therefore, promote the production of those parts where the disadvantage from low volume is at a minimum. However, there remains a differential in the rate of duty as between tariff items. This limits the range of choice and, as a result, parts manufactured in Canada may not be those for which the disadvantage of low volume production is the least. While the content requirements assure a given percentage of Canadian participation in the industry, the 17½ per cent protection on the completed vehicle permits prices of some parts made in Canada to be well above the prices of similar parts in the United States.

Developments, 1936-1945

It is difficult to assess the impact of the tariff changes and the new content provisions of 1936. The three-year period which preceded the war was marked by unsettled economic conditions and does not provide a fair basis on which to judge their effect. Production in the motor vehicle industry increased substantially in 1937 but declined again until the outbreak of war. In 1938, Canadian production was 166,000 vehicles of which 57,000 were exported. With imports of only 15,000, we were still a net exporter. A number of low-volume producers ceased manufacturing in Canada after 1936; three of these, Studebaker Corporation of Canada Limited, Hudson Motors of Canada Limited and Packard Motor Car Company of Canada Limited, nevertheless continued to sell imported vehicles on the Canadian market. While there must have been a number of reasons for the decisions to withdraw from production in Canada, the content provision of 40 per

The Historical Context

cent, in the face of advancing technology which favours high-volume production, may well have been a contributing factor. The effect of the changes in the Tariff Regulations in 1936 on the parts industry is also difficult to assess. Production initially increased even more in the parts industry than in the automobile manufacturing industry; it subsequently declined somewhat less.

Following the outbreak of World War II, the automotive industry quickly increased production and directed its energies to the production of military equipment. By 1941, production had risen to 271,000 vehicles a year. The production of passenger cars was suspended in 1942 and during that year 216,000 military vehicles were produced. While the output of vehicles then declined, the industry continued operating at a very high level, producing repair parts and other types of military equipment.

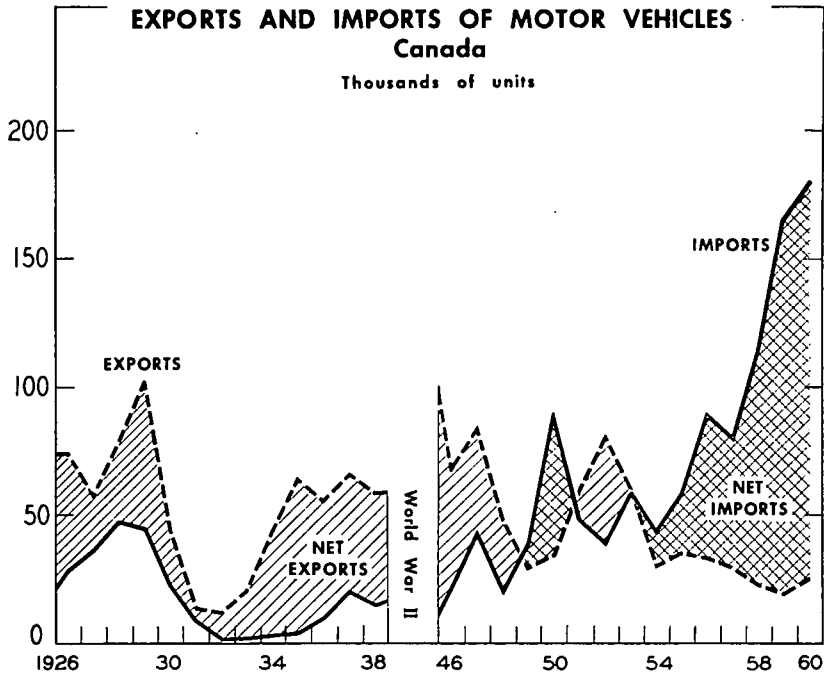
Developments since 1945

The production of passenger cars was resumed in September 1945, and in 1946 the industry produced 92,000 passenger automobiles, and 80,000 commercial vehicles. Exports amounted to 40 per cent of total production. By 1950, production had risen to 390,000 vehicles. However, as shown in the accompanying chart, the first signs of an important new development became apparent. Under the pressure of strong domestic demand, Canada had become a net importer of motor vehicles. Exports dropped to 30,000 vehicles in 1949, and in 1950 they were 34,000, less than 10 per cent of production. Imports increased to 38,000 in 1949, and to 89,000 in 1950.

In 1953, total vehicle production was 481,000 units; this production is the peak output which the industry has achieved to date. Exports were at a relatively high level (60,000 vehicles or 12.5 per cent of production) and virtually in balance with imports. Since 1953, exports have generally declined. By 1960, they had declined to one-third of the 1953 level. Imports, on the other hand, have been rising very sharply. In 1960, Canada imported 180,000 vehicles compared with 58,000 in 1953.

In the changing world, Canada has become a heavy net importer. Imports in 1960 represented 33 per cent of the total vehicles marketed in Canada. Of the 180,000 vehicles imported into Canada

Royal Commission on the Automotive Industry



in 1960, 96,000 came from the United Kingdom, 40,000 from West Germany, 32,000 from the United States, and 13,000 from France, Italy and other countries. There was also a heavy influx of European vehicles into the United States. In 1960, the United States imported some 483,000 vehicles compared with about 60,000 in 1955; and, during this period, exports of motor vehicles from the United States declined from 389,000 to 325,000.

The World Context

It is important to view these developments in the North American automobile industry in the light of the economic setting of the fifties. One of the most important features of the period was the serious post-war dollar shortage which for many countries persisted well into the decade. This shortage of dollars favoured the rapid development of decidedly export-oriented motor vehicle industries in the United Kingdom and continental Europe. In addition, some of our traditional export markets declined following the establishment of import barriers

The Historical Context

designed to encourage the growth of their secondary industries as well as to relieve the dollar shortage. Competition in export markets from the United Kingdom and Europe developed rapidly during this period.

The large-scale penetration of European vehicles in North America was another feature of the world automobile market in the fifties. Consumer acceptance of European vehicles in North America was wide-spread. In Canada, it was given further encouragement by the liberal interpretation of the tariff legislation existing at that time. This will be discussed in Chapter IV. The penetration of European vehicles in the United States' market reached a peak in 1959. In 1960, with the growing public favour of domestically produced "compact" models, imports into the United States declined to 483,000 units from 690,000 in the previous year, a contraction of 30 per cent. As a result, the combined exports to all countries by the four major European producers levelled off. By contrast, European imports into Canada continued to rise in 1960. It is clear that the North American compact car has not competed as effectively against European models in Canada as it has in the United States.

Statistics showing North American and European production, exports and imports of motor vehicles over an extended period appear in Appendix VI. Tables I and II on pages 14 and 15 highlight the recent sharp increase in European output and exports.

The dramatic changes that have taken place in the world's automotive scene are shown in the charts appearing on pages 16, 17 and 18. The most significant features are, of course, the rapidly growing importance of the four major European producers in the overall motor vehicle production picture and their emergence as the dominant force in export markets during the post-war period. In the late twenties, the United States was by far the largest producer as well as the largest exporter of motor vehicles. Canada, with an automobile industry comparable in size to those of France and the United Kingdom, was a larger exporter than either. In contrast to developments in Europe, production in the Canadian and in the United States industries was sharply reduced during the depression which followed 1929. By the end of the thirties, our motor vehicle industry had not only failed to regain 1929 levels either as a producer or as an exporter but had been surpassed by those of the United Kingdom and Germany in both fields.

TABLE I
 PRODUCTION OF MOTOR VEHICLES
 CANADA AND THE PRINCIPAL PRODUCING COUNTRIES
 (Thousands of Vehicles)

	Canada	United States	Major European Producing Countries				Total
			United Kingdom	France	Germany ⁽¹⁾	Italy	
1929.....	263	5,337	239	230	156	55	680
1938.....	166	2,508	445	182	342	71	1,040
1952.....	434	5,539	690	499	428	138	1,755
1955.....	454	9,169	1,237	725	909	269	3,140
1959.....	368	6,729	1,560	1,283	1,719	501	5,063
1960 ^p	396	8,059	1,778	1,369	2,055	690	5,892

p: Provisional, except for Canada.

(1) West Germany only, after World War II.

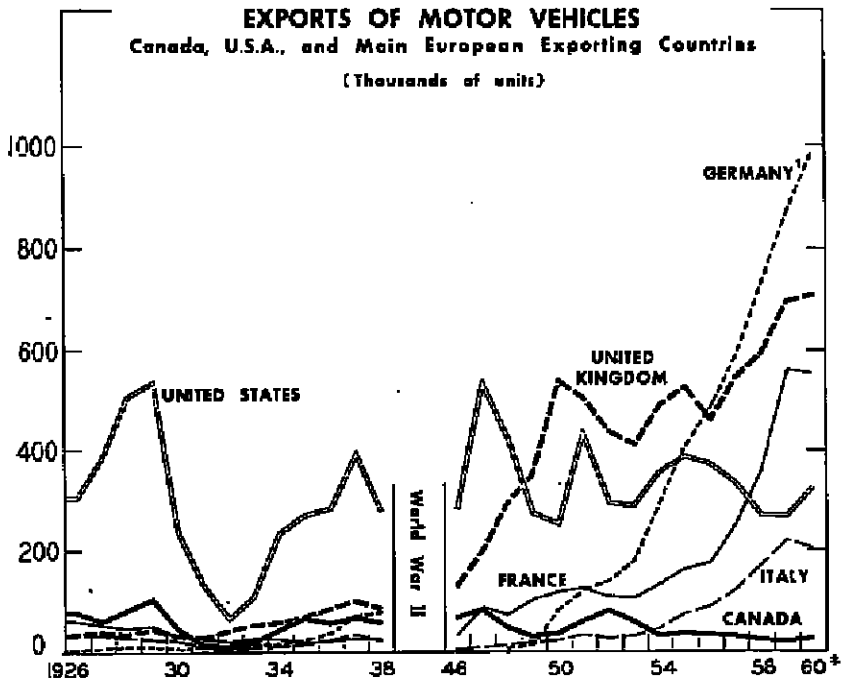
TABLE II
 EXPORTS AND IMPORTS OF MOTOR VEHICLES .
 CANADA AND THE PRINCIPAL PRODUCING COUNTRIES
 (Thousands of Vehicles)

	Canada		United States		Major European Producing Countries					Total Exports
	Exports	Imports	Exports	Imports	United Kingdom		France Exports	Germany ⁽¹⁾ Exports	Italy Exports	
					Exports	Imports				
1929.....	102	45	537	n.a.	42	38	49	8	24	123
1938.....	58	15	277	n.a.	84	11	24	78	20	206
1952.....	80	39	297	34	437	2	107	137	26	707
1955.....	35	58	389	58	529	12	163	404	75	1,171
1959.....	19	166	268	690	697	28	562	871	221	2,351
1960p.....	23	180	325	483	710	n.a.	555	983	205	2,453

p: Provisional, except for Canada.

(1) West Germany only, after World War II.

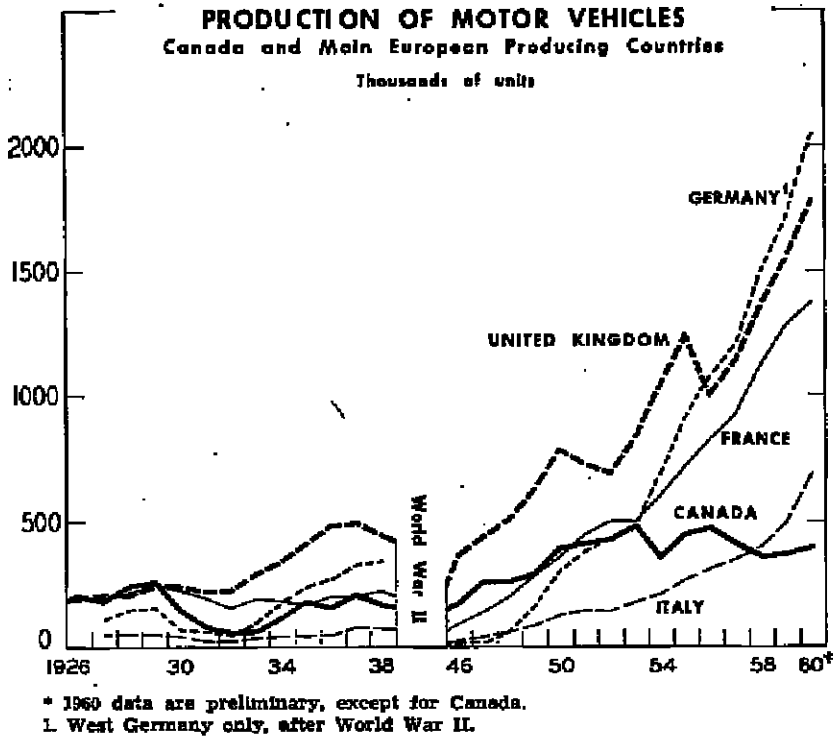
Royal Commission on the Automotive Industry



* 1960 data are preliminary, except for Canada.

1. West Germany only, after World War II.¹

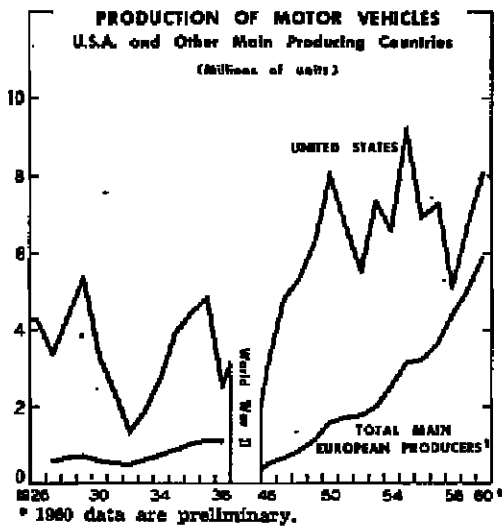
After World War II, Canadian motor vehicle manufacturing expanded rapidly until 1953, but exports became relatively less important in sustaining the level of output. Meanwhile, three of the four major European producers had expanded to levels of output exceeding that of Canada and, in each of the four, the motor vehicle industry was expanding at a rate far in excess of that of Canada. By 1960, Germany was producing over two million vehicles a year, the United Kingdom was rapidly approaching that mark, France was producing well over one million units a year, and Italy had surpassed Canada both as a producer and as an exporter. The combined output of the four major European producers last year was fifteen times the number of vehicles produced in Canada and it amounted to 73 per cent of the total United States output. As recently as 1953, the year of peak Canadian automobile production, manufacturers in these four countries produced only four times as many vehicles as Canada and 27 per cent as many as the United States. Going back to 1938 and 1929, the ratios were



respectively 6.5 and 2.7 times Canadian production and 41 per cent and 13 per cent of United States production. (In 1937, a more representative year for the immediate pre-war period, the combined output of the four European countries amounted to 23 per cent of the United States' output.)

The change on the export side has been even more dramatic. Canada has long lost her once eminent position as the second largest exporter of vehicles in the world. The United States lost first rank to the United Kingdom shortly after World War II and subsequently fell to third and fourth ranks with the emergence of Germany and France as major exporters of motor vehicles. By 1957, even the United States had become a net importer of passenger automobiles. The United Kingdom and France each exported five passenger cars for every one exported by the United States, and Germany exported more than

Royal Commission on the Automotive Industry



1. Includes the United Kingdom, Germany (West Germany after World War II), France and Italy.

seven to one. The ability of Canada to export motor vehicles, in earlier days, depended largely on the competitive advantage afforded by her access to many of the economies of large-scale automotive production in the United States. The decline in Canadian exports of motor vehicles must be seen as part of the decline in North American exports.

Prospects for Further Development

This, then, is the world picture at the end of the fifties; but the development is not complete. Everywhere I went in England and in Europe, I saw automotive production facilities being expanded or expansion being planned. These plans are not geared just to expanding domestic markets in these countries, they are based on the expectation of continued and expanding exports. It is clear that the world market is going to be intensely competitive in the present decade. Canadian policy must be determined now in full recognition of the present plans for European expansion. Immediate preoccupation with the short-run problems of the industry must not inhibit consideration of some long-run possibilities. It seems reasonable to argue that the present strength of the European automotive industry in competition with the North American industry arises from its possession of the most advanced technology and equipment, and the availability of labour at relatively low wages. The level of wages in this industry is related to the levels of wages in other industries in the same country. These levels are related to the general level of productivity in the country. As technology and

equipment advance, wages will rise towards the still rising North American level. Some of their current competitive advantage will thus disappear.

Sales and Excise Taxes

Before turning to more analytical considerations, it is appropriate to consider briefly in an historical context the subject of sales and excise taxes as they apply to motor vehicles in Canada.

Passenger cars have been subject to special excise taxes since 1923. Until 1936, the rate was 5 per cent on automobiles valued at up to \$1200 and 10 per cent on any amount by which the price exceeded \$1200. From 1936 to 1940, the tax was 5 per cent on the amount by which the price exceeded \$650. During World War II, much stiffer graduated rates of tax were imposed. From 1941 to 1945, when they were at their highest, the rates of excise tax were 25 per cent on automobiles valued at \$900 or less, 40 per cent on those valued at more than \$900 and up to \$1200, and 80 per cent on those valued at more than \$1200. From 1945 to 1947, a flat rate of 10 per cent was imposed. Then, again in 1947, came high graduated rates: 25 per cent on vehicles valued at \$1200 or less, 50 per cent on those valued from \$1200 to \$2000, and 75 per cent on those valued at more than \$2000. This increase was essentially a foreign exchange conservation measure. The rate returned to a flat 10 per cent in 1948; it was raised to 15 per cent in 1950 and to 25 per cent in 1951. From 1952 to 1955, it was 15 per cent; from 1955 to 1957, it was 10 per cent. Since December 7, 1957, it has been 7½ per cent. Automobiles have been, and are, also subject to the general sales tax. The present rate is 11 per cent. These taxes are assessed on the manufacturer's selling price to the dealer when the automobile is produced in Canada and on the duty-paid value when it is imported.

In general, such taxes are intended to be neutral as between imported automobiles and those produced in Canada. However, some protective use was made of the excise tax between 1926 and 1936. During this period, cars valued at less than \$1200 which qualified under the Commonwealth content requirement were exempt from the 5 per cent excise tax. I shall argue later that the intended neutrality of

Royal Commission on the Automotive Industry

these taxes may not have been fully achieved because of the different bases of assessment used for imported and domestically produced automobiles.

Chapter III

The Structure of the Industry

THE MOST important characteristic of the Canadian motor vehicle industry is its dominance by that industry in the United States. The vehicle manufacturing companies are owned and controlled by parent organizations in the United States. Their products are designed in the United States, their techniques of production follow closely those developed by their parent companies, and many parts are manufactured in the United States along with the large volume required for that vast market. Canada thus shares, to some extent, in the economies of large-scale production achieved by the United States; but, in the process, it must accept some features of the industry in the United States, such as the multiplicity of models and the frequency of model change, which are less desirable especially in a smaller market.

Five producers, differing widely in size, dominate the market in the United States. Of these five, the "Big Three" (General Motors, Ford and Chrysler) account for some 90 per cent of the output of the industry. The subsidiaries of the "Big Three" accounted for 98 per cent of the vehicles produced in Canada in 1960, 97 per cent in 1959, and 98 per cent in 1958. These three companies are also big importers; indeed, they accounted for some 43 per cent of all motor vehicles imported, and their sales (production plus imports) accounted for 86 per cent of total Canadian sales in 1960, 81 per cent in 1959 and 85 per cent in 1958.

The "Big Three" also produce commercial vehicles. The volume market is that for standardized commercial vehicles including light delivery vans. Because such commercial vehicles have many mechanical parts in common with passenger automobiles, it is natural that they

Royal Commission on the Automotive Industry

should be produced by the same manufacturer and that the "Big Three" should occupy a position of dominance in both markets. Heavy truck and bus production is a very different matter. These vehicles are largely built to the specifications of the user and generally do not lend themselves to the techniques of mass production. The number produced is small but the unit value is high. One large general truck manufacturer and several small bus and specialty truck manufacturers operate in this market; two automobile manufacturers are gradually moving into it.

The Canadian automotive industry is concentrated in South-western Ontario. The assembly plants are located with two principal factors in mind: first, nearness to the biggest market, and, second, nearness to the United States source of supply of parts. General Motors assembles at Oshawa, Ford at Oakville, Chrysler at Windsor, Studebaker-Packard at Hamilton, and American Motors at Brampton. The numerous plants where automotive parts are manufactured are located in many communities throughout this area.

Degree of Integration

The production of automobiles is carried on in many countries. At one end of the scale, there are those countries where manufacturing merely consists of the assembly of "completely knocked down" vehicles imported from other countries, principally the United States, the United Kingdom, France, Germany and Italy. The desire of countries with small markets to play some part in the industry leads to added costs. The tariff on assembled vehicles which is necessary to induce assembly of such c.k.d. vehicles is often high. At the other end of the scale, there are countries that have a fully developed motor industry producing all the myriad parts that have to be assembled in the production of vehicles. Canada is somewhere in the middle of this scale. The automotive schedule of the Customs Tariff was designed to ensure a degree of manufacturing as well as of assembly. If it had aimed at securing complete manufacture in Canada, it is doubtful whether the industry could have developed. By permitting duty-free entry of certain parts "of a class or kind not made in Canada" (as long as the required Commonwealth content is met), the Tariff promoted the development of a substantial Canadian contribution to the manufacture of motor vehicles. This, of course, has not been achieved without cost to the Canadian consumer.

The Structure of the Industry

Studebaker-Packard and American Motors, in view of their relatively low volume, carry out only assembly operations in Canada. Having in mind the dual necessity of meeting content and minimizing cost, they "buy out" from Canadian sources those parts that can be most economically produced in Canada and import the remainder from their parent companies or the suppliers of these companies. Chrysler, in Canada, is primarily an assembler of vehicles and engines. It does some manufacturing, body building, and machining and assembly of engines. Engine blocks, crankshafts and connecting rods are purchased from Canadian suppliers as rough castings and forgings and are machined into finished components. Ford operates extensive body building, machining and stamping facilities as well as a large engine plant in Windsor. It also has foundry facilities to supply the major part of its requirements for castings, particularly its engine blocks. General Motors and McKinnon Industries, Limited together constitute the most highly integrated operation in Canada, as one might expect in view of the larger volume of their production. (The two companies are here treated as a unit. Though McKinnon Industries is quite independent of General Motors of Canada, it is a subsidiary of the General Motors Corporation. It has seemed to me to be more reasonable to treat them as two divisions of a unitary operation though they have corporate individuality.) They manufacture a variety of parts and types of equipment not made by the other Canadian automobile manufacturers. They operate a large forge and both grey iron and malleable iron foundries. They produce six-cylinder and eight-cylinder engines. They manufacture stampings, including fenders and hoods. They also produce other components, including transmissions, differentials, brake assemblies and a wide range of electrical equipment.

In the United States, General Motors and Ford are so large that they can produce parts on a big enough scale to reap most of the benefits of large-scale production. Such integration is only profitable where the volume is very large, but, though integration is uneconomic without high volume, high volume does not necessarily lead to integration. In the United Kingdom, for example, the degree of vertical integration has been less extensive than in the United States; large automobile manufacturers rely on independent suppliers, such as Joseph Lucas Limited for electrical equipment, and Pressed Steel Co. Limited for bodies. In Canada, the degree of integration varies considerably

Royal Commission on the Automotive Industry

among the "Big Three", reflecting the size of their operation and the policy adopted by the parent companies in this respect. The Canadian "content" requirement has probably resulted in somewhat more fabrication of parts by the larger Canadian manufacturers than would otherwise have been undertaken. But such fabrication is possible only to a limited extent for these larger companies; it is beyond the reach of the smaller manufacturers. In processes for which the optimum scale of production is very high, such as large body stampings and automatic transmissions, even total Canadian requirements would not warrant production in Canada. For example, if Canadian vehicle manufacturers were to adopt one type of automatic transmission for all models, the production of this part in Canada would not permit economies of scale such as are now obtained by a single United States producer of automatic transmissions. The advantage to the individual firm of vertical integration stems primarily from strategic rather than cost calculations. Even in processes where the optimum scale of production lies within the scale of Canadian producers, there appear to be few opportunities for cost reductions through integration. However, the firm may secure greater control over quality and timing of delivery and protection against shortages and price increases.

Materials and Processes

The motor vehicle is primarily a product of iron and steel; indeed, some 80 per cent of the weight of a passenger vehicle is made up of these materials. The frame, the body, the shafts, the wheels and the motor are made from steel bars, sheet and strip, wire and tubing, and cast iron. The steel industry of Canada in 1959 sold 286,000 tons of steel rolling mill products to the automotive industry in Canada, or about 6 per cent of its shipments. In the United States, the automotive industry took 17 per cent of American steel shipments, and, in the United Kingdom, this industry took 12 per cent of steel shipments. Other metals are used such as lead, copper, zinc and nickel; and there is a growing use of aluminum in an effort to reduce the weight of the vehicle. Next to iron and steel, rubber is the raw material used in the greatest quantities by the automotive industry. Tires and tubes account for over 50 per cent of the shipments of the rubber products industry. In addition, the automobile contains some

200 rubber parts including fan belts, hose, tubing, bushings and other extruded parts. In total, some two-thirds of the value of the shipments of the rubber products industry go to the automotive industry. Other materials used in quantity are glass, textiles and paint; the use of plastics is increasing. Many of the materials of the precise specifications required for the production of vehicles or parts are not available from Canadian sources of supply and have to be imported. They are generally imported from the United States and, in most cases, are subject to duty.

The metals used in vehicle manufacturing have to be processed, stamped, cast or forged. The body, for instance, consists of a series of stampings welded together. The production of large body stampings requires the use of heavy presses and expensive dies. There are also smaller stampings for the body and a great variety of other stampings used in a wide range of components. Castings and forgings have to be machined before they are ready for final assembly; this is a very important part of the process of manufacture and involves high precision work. The most important single casting is the engine block, and the crankshaft is the most important of the forgings.

Production of Parts

A wide range of automotive parts is made in Canada. These include engines, differentials, standard transmissions, steering gears, axles, wheels, radiators, piston rings, self-starters, spark plugs, batteries, laminated glass and most electrical components. The total value of parts produced in Canada in 1959, including tires and batteries, amounted to some \$530 million. Many parts were imported from the United States, mostly as original equipment to be incorporated along with Canadian parts in the production of new vehicles. In 1959, these imports amounted to some \$336 million.

Whether or not an automotive part is produced in Canada depends on many factors. The conditions set out by the Customs Tariff with regard to rates of duty and content requirements have already been mentioned. A second consideration concerns the exact specifications to which manufacturers of automotive parts must conform. Quite frequently, the specifications require not only that the materials used be identical with those employed in the United States but also that

Royal Commission on the Automotive Industry

the machinery used in the production process be the same as that used in the processing of the similar part in the United States. In order to produce a part in Canada, a manufacturer may have to purchase materials, and the machinery and equipment needed to process them, from the same source as his competitor in the United States. Thirdly, the character of parts manufacturing in the context of the North American automobile market (with its frequent model changes) requires that the tools and equipment used in production be amortized during the course of a production run of relatively short duration. It follows that unit costs are directly conditioned by the cost of the machinery used and the volume of production. Large-volume production in other countries has led to technical developments in automotive parts production involving a high degree of mechanization. Costly high-speed, single-purpose machinery, the capacity of which, in many cases, is in excess of the requirements of the Canadian market, has been developed. The parts manufacturer in Canada with comparatively low-volume output cannot, as a rule, expect to take sufficient advantage of the economies that can be achieved with this type of machinery to justify its purchase. He has had to adapt general purpose machinery to his operation and, though he has exercised admirable ingenuity in so doing, he has not been able to avoid adding something to cost. While, on the average, labour rates in the automobile industry are somewhat lower in Canada than in the United States, the labour cost per unit of production nevertheless tends to be higher in Canada by reason of frequent changes in "set-ups" for comparatively small production runs.

Economies of Scale

Some consideration of the optimum scale of operation is important as background for the proposals that I shall make. Wherever I went, I was constantly aware of the significance of volume and of the economies of large-scale production. The technology of the industry demands more and more expensive and specialized machinery. This requires ever increasing volume before the full economies can be achieved. The economies of increasing volume of production have improved the competitive position of the major European automobile-producing countries in the Canadian market. The concept of optimum size is not a static one; a plant that is of optimum size today may be

The Structure of the Industry

no longer such tomorrow. Optimum size in the industry varies with the type of work to be performed; it is higher for some operations than for others. The different operations involved in the production of a motor vehicle may be grouped into four basic processes, namely casting and forging, machining, stamping and assembly.

Final assembly can be a relatively small-scale operation. In the United States, because of the wide dispersion of important markets and the consequent cost of transportation, each of the "Big Three" has several assembly plants. It would seem that maximum efficiency can be achieved around 100,000 units per annum. In Europe, where transportation costs are relatively less important, assembly operations tend to be concentrated in one location; in the large plants, there is usually more than one assembly line with a duplication of equipment. The technique which is universally used in the mass-assembly of motor vehicles is a moving conveyor system. This flow technique can be used with more or less mechanization and is adaptable to low-volume output. Sub-assembly operations usually associated with final assembly, e.g., body, gear-box, rear axle, appear to obtain their optimum efficiency in volumes approximating that of final assembly. The relatively low optimum size in these operations is due to the complexity of the product, the importance of direct labour and the use of general purpose equipment. These operations can be undertaken in Canada, particularly by the larger producers, with minimum cost disadvantage.

In casting and forging, labour and general purpose equipment are similarly important cost elements and indications are that the economies of scale are not significant beyond relatively low levels. In Canada, both General Motors and Ford perform foundry operations but Chrysler "buys out" its foundry products from independent suppliers.

In the machining of parts, the most efficient technique requires expensive machinery and tooling. Large volumes are necessary to justify their use. The optimum production in this case may be as high as, or higher than, half a million units per annum. There are a number of machining operations which are carried on in Canada, for example, the machining of pistons and engine blocks. In a number of cases, the optimum level of operation is in excess of the volume required by Canadian automobile manufacturers. In some of these cases, production is, nevertheless, undertaken as a result of the protection provided by the Tariff.

Royal Commission on the Automotive Industry

Body stampings provide the outstanding example of economies of scale in the manufacture of automobiles. The economies of volume are derived mainly from the continuous operation of expensive presses and the intensive utilization of expensive dies, permitting rapid amortization on a high volume of stampings produced over a relatively short period of time. Information obtained by the Commission suggests that the optimum output is as high as a million stampings a year.

The size of the United States market enables the larger producers to take full advantage of optimum scales of production in every phase of the industry. The larger European producers, with their rapidly expanding markets, are similarly taking advantage of the economies of scale. It is generally agreed that the overall optimum for automobile production is determined by the scale at which maximum economies can be achieved in stamping operations. It appears that as volume increases to 100,000 vehicles a year, economies of scale are substantial, particularly in assembly. As volume increases beyond this point, there are additional savings in machining and stamping operations although duplication of equipment is required for assembly and for other operations with relatively low optimum volume.

The optimum scale for other parts and components will vary considerably and will depend on the techniques of production. If there is no machining or heavy stamping involved and if the techniques are similar to those used in assembly by automobile manufacturers, there is no reason to suppose that the optima will be very different.

The automatic transmission is probably the most complex component in a motor vehicle and involves considerable machining. In the course of my visit to automatic transmission plants in the United States, I found that the optimum output was in the neighbourhood of 100 transmissions an hour. On this basis, the optimum annual output from one line is 400,000 units. Of the 395,000 vehicles produced in Canada in 1960 by all manufacturers, 60 per cent were equipped with automatic transmissions. On this basis, it would not have been possible to keep one line operating at the optimum scale, even if all models had been equipped with one basic type of transmission.

On my visit to the Detroit Transmission Division of General Motors Corporation, I noted with interest that, along with one of their high-volume automatic transmissions, they produced an automatic transmission which was common to the Compact Oldsmobile, the

The Structure of the Industry

Vauxhall and the Opel. The production of this transmission was approximately 400 a day, and it was agreed that production on this scale could not have been undertaken economically had it not been possible to share certain advantages of the production of the high-volume transmission.

Research

The cost of automotive engineering design and research is high. Canadian volume cannot support such cost and it is therefore not surprising that the Canadian subsidiaries have, to a very large extent, relied on their United States parent companies to do this work. While the Canadian companies have adopted the technology of their parents, they have had to work out their own modifications of the methods of production appropriate to lower volume. The contribution made by the Canadian companies to the development of engineering and technical skills in Canada should be acknowledged. Indeed, the argument for some protection to this industry might be based, in part, on the effect of the development of this industry on Canadian industrial technology.

Employment

The automotive industry is the second largest manufacturing employer in Canada. It has employed well in excess of 50,000 persons. In 1959, the number of persons employed directly by the automotive industry was 47,000, including 36,000 production workers paid at hourly rates and 11,000 salaried employees in clerical, supervisory and administrative occupations. In that year, there were, on average, 28,000 employees engaged in the motor vehicle manufacturing industry and 19,000 in metal parts manufacturing plants. It is estimated that, in 1960, average employment in motor vehicle manufacturing was about the same as in 1959, while employment in metal parts manufacturing was about 4 per cent lower.

These employment figures do not take into account a large number of persons employed in industries which are, in part, directly related to automotive production and still others which have a more remote, though no less real, connection with the automotive sector of

Royal Commission on the Automotive Industry

the economy. In the first group, there are the industries which supply various materials (e.g., iron and steel, paint, fuel) and non-metal parts (e.g., tires and tubes, textiles and plastics) which are incorporated into motor vehicles. It is estimated that at least 60 per cent of the total production of the Canadian rubber industry, which employs more than 20,000 persons, is for use in motor vehicles. The primary iron and steel industry, which in 1959 employed some 36,000 persons, ships annually about 6 per cent of its rolling mill tonnage to automotive manufacturers. In addition, many persons employed in other industries, such as transportation and merchandising, are connected with automotive products.

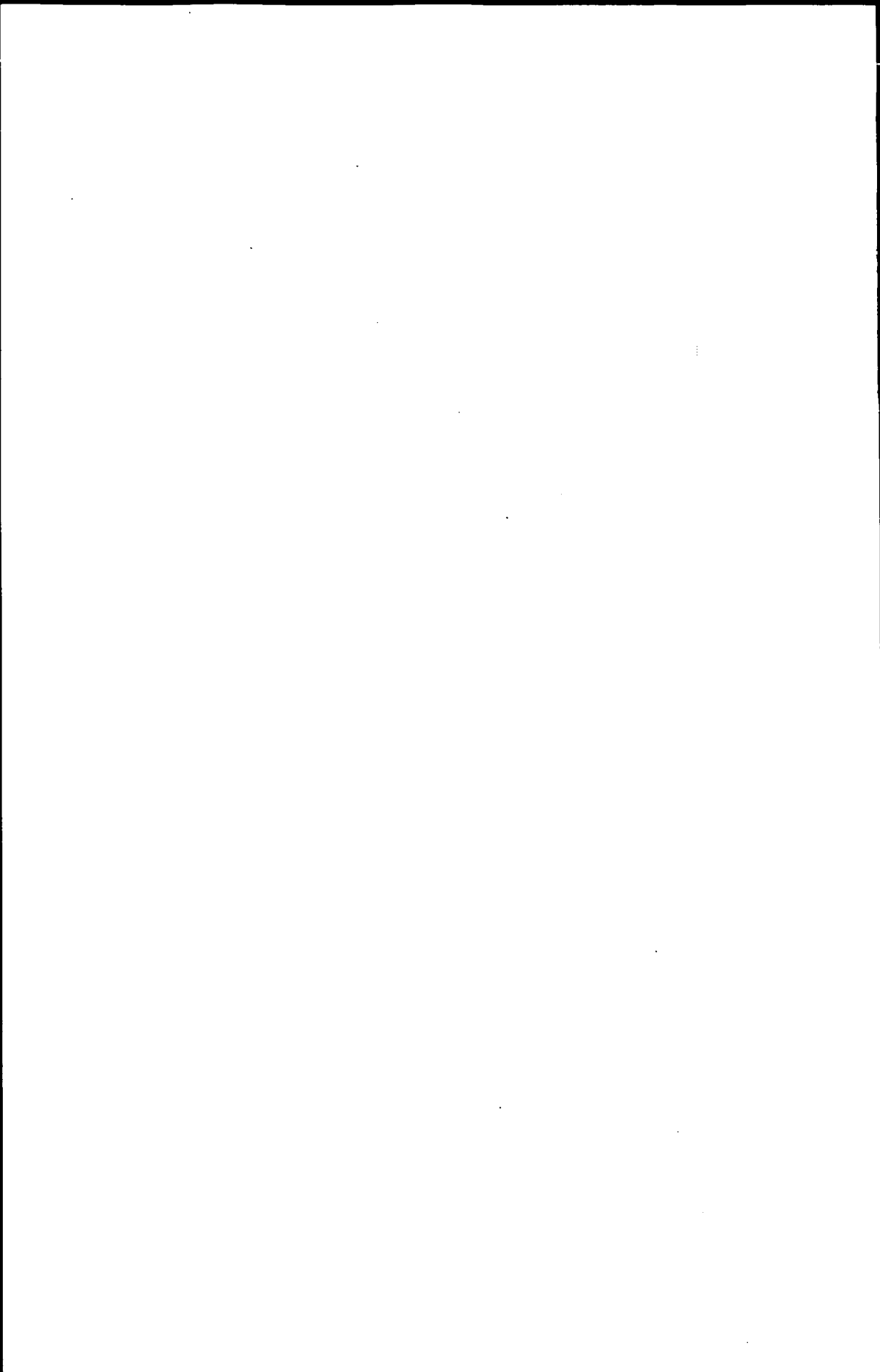
It would be very difficult to evaluate precisely the importance of automotive production in the Canadian economy. Suffice it to say that individual consumers have, during the last decade, spent on average 9.2 per cent of their annual disposable income on automotive products and services, including new and used cars, repair parts and services, petroleum products, house trailers, and automotive accessories. The importance of vehicles used for commercial purposes (including 15 to 20 per cent of the annual production of passenger automobiles), would understandably be greater than the mere number of vehicles would indicate, as these vehicles are on the average more costly and are used more intensively than the ordinary family car. It is clear that, from many points of view, not the least of which is the employment which it provides either directly or indirectly, the automotive industry is an important factor in Canada's economy. The policies that are adopted with regard to motor vehicles in this country must be designed not only to favour the expansion of domestic automotive production but must also be such as to avoid undue restriction of the trend towards increasing automotive consumption which has resulted from the availability in Canada of a broad selection of imported products at relatively low cost.

Tariff and the Low-Volume Automobile Producer

The Customs Tariff has been of major significance in the development of the Canadian automotive parts industry. The tariff revisions of 1936 were designed to encourage the manufacture of automotive parts in this country. With the prospect of a duty penalty

The Structure of the Industry

in the event of failure to qualify under the content provisions, manufacturing companies would have to increase their parts production or to seek Canadian sources of supply. The parts produced in Canada would, under this arrangement, be those with the least cost disadvantage for low volume. It is significant, however, that increases in the volume of parts production in Canada have been generally in those parts which are sold against dutiable imports. While the 17½ per cent protection on completed vehicles imported under the Most-Favoured-Nation Tariff permits costs of production in Canada to be in excess of those in the United States, the low-volume vehicle producer is at a cost disadvantage *vis-à-vis* his high-volume competitor as there are certain parts that he cannot afford to buy in Canada because of the high cost of low-volume production. He must, therefore, import these parts, and many are subject to duty because similar parts are made in Canada for the longer run of the higher volume producer. The present tariff legislation accentuates in this way the competitive disadvantage of the low-volume producer. From the evidence submitted, it has been determined that, on average, General Motors incurs duty on imported parts to the extent of some \$20 per vehicle, while, at the other end of the scale, Studebaker-Packard incurs a duty of some \$85 per vehicle.



Chapter IV

Tariff Administration

Value for Duty

THE EFFECT of any *ad valorem* duty depends not only on the rate of duty but also on the value on which this duty is assessed. The lower the value established for duty, the less the protective effect of any tariff rate. In Canada, the value for duty has added significance because "duty paid value" is the base on which sales and excise taxes on imported products are assessed. The lower the duty-paid value, the less the impact of the sales and excise taxes. The value for duty has an additional significance because it is the base for determining the application of "special" or dumping duty which applies if the goods are of a class or kind made in Canada. In brief, the Act provides that, in the case of imported goods of a class or kind made in Canada, if the selling price is less than the value for duty, "special" or dumping duty will apply in the full amount of the difference but not exceeding 50 per cent *ad valorem*. The "special" duty is automatically collected in every case where these conditions are found to exist.

It is the marketing practice in major motor vehicle producing countries for manufacturers to sell automobiles through dealers. The manufacturer's price to dealers is generally established on the basis of discounts from the suggested list price depending upon the quantity purchased by the dealer. Under the valuation provisions of the Customs Act prior to 1958, the price to the dealer in the home market was normally the value accepted for duty purposes. Since the quantities delivered to importers in Canada were generally greater than those sold to any dealer in the home market, the value for duty could be deter-

Royal Commission on the Automotive Industry

mined on the basis of the provision in the Act for "like quantities". This permitted a presumed discount in excess of the highest discount actually allowed to a dealer in the home market. In 1958, the valuation provisions of the Customs Act were amended. The Act now requires that, in determining an acceptable value for duty purposes, only those discounts actually granted on sales in the home market may be taken. If not sold in like quantities, the discount actually allowed for customs valuation purposes is that which is actually granted by the manufacturer on sales in his home market in the nearest quantities.

In the immediate post-war years, the Canadian Government, in an apparent effort to assist the United Kingdom to overcome its dollar shortage, exempted automobiles and some other manufactured goods exported to Canada from the application of "special" or dumping duty. In 1951, automobiles were withdrawn from this exempt list, but, to encourage sales of British vehicles in the Canadian market, a uniform discount of 30 per cent was allowed on the United Kingdom retail price. This discount was extended to importers of vehicles from other countries. Thus, Canadian producers were subject to competition from vehicles from the United Kingdom which entered free of duty and which were exported at prices below those prevailing in the home market, and the protection against other imported vehicles, subject to the Most-Favoured-Nation duty, was, by virtue of this allowance of a 30 per cent discount, substantially reduced.

On October 14, 1960, the Minister of National Revenue announced that, effective December 1, 1960, the value for duty purposes of an automobile would no longer be accepted if such a value did not, in fact, prevail in the exporter's home market. The Minister determined that the discount allowed for valuation purposes would be reduced from 30 per cent to 20 per cent; higher discounts would be allowed if such were in fact granted on sales in the exporter's home market. This action was in accord with the change in the Customs Act of 1958. Under that Act, discounts presumed to be reasonable but not actually granted to any buyer in the home market could no longer be allowed. In the course of my inquiry, I have heard much criticism of this action. In my view, it might well have been held that actual discounts in the home market should have been the basis for determining the fair market value, rather than the twenty per cent minimum. The

Customs Act, as amended in 1958, reads as follows: “. . . if the quantity shipped to Canada is larger than the largest quantity sold for home consumption, those quantities shall be deemed to be the same quantities”. There are some exporters who could not substantiate a claim to 20 per cent; there are others who are able to claim, and are allowed, discounts in excess of 20 per cent. It is not yet possible to assess the effect of this change but it clearly has reduced to some extent the competitive advantage of importers in the Canadian market. In my view, the change was required to implement the legislation of 1958, and the effects of the action are salutary.

The Department of National Revenue announced at the same time that, effective December 1, 1960, the discounts allowed on sales to Canadian importers of automotive replacement parts must be strictly in accordance with those obtaining in the home market as visualized under the Customs Act. This meant that a 20 per cent national distributor discount, that had been allowed on imports of past model service parts from the United States by the automobile manufacturers, was withdrawn. Only those discounts which were regularly granted in “arm’s length” transactions in the United States would be allowed. This ruling was no doubt in conformity with the legislation of 1958, but its effects appear to be less salutary.

This change has had an effect on the relative competitive position of suppliers of past model service parts in Canada. Under the new ruling, the minimum value for duty of past model service parts imported by an automobile manufacturer is the dealer price of the parent company in the United States. Let us suppose that Company “A” in the United States buys a certain part from an independent producer, and that its Canadian subsidiary imports a supply of these parts. Whether the Canadian firm buys directly from the independent supplier or buys from its parent firm, the value for duty is the price charged by Company “A” to its dealers in the United States. If an independent Canadian wholesaler buys the identical part (but not specified as item such-and-such in the automobile company’s catalogue of parts), the value for duty would be the price charged by the producer. Since the wholesaler’s purchases would not be on the same scale as those of Company “A”, it is a reasonable assumption that the wholesaler would pay a somewhat higher price. But it seems unreasonable to assume that this price to the wholesaler would be as high as that at which Company “A” sells

Royal Commission on the Automotive Industry

to its dealers. This dealer price is that taken as value for duty for the Canadian subsidiary of the Company. By assessing duty at different levels in the process of distribution, this has the effect of placing the manufacturer of vehicles at a competitive disadvantage in the Canadian market *vis-à-vis* the independent wholesaler. No doubt, this action has given some added protection to the parts industry in Canada. But it has also had the effect of increasing the competitive advantage of the larger automobile manufacturer. The low-volume manufacturer is not able to arrange for production of past model service parts in Canada at a competitive price, and most of these parts are subject to import duty. The recent increase in the burden of the duty still does not make manufacture of these parts in Canada feasible.

“Made in Canada” Status

As has been explained in Chapter II, the Customs Tariff protects the producers of automotive parts principally by its content requirement on finished vehicles, but also by rates of duty on parts as high as 25 per cent. Whether a part shall be dutiable depends in many cases on whether or not it is considered to be of a class or kind made in Canada. Determination of the “made in Canada” status of the part is the responsibility of the Department of National Revenue. The Department requires that at least ten per cent of the market be supplied from Canadian production before a “made in Canada” ruling is issued. In determining the extent of the market, the Department, quite properly, consults the vehicle manufacturers. The manufacturers are inclined to resist any change that may result in added cost. During the course of my inquiry, it was evident that, in the motor vehicle industry, many of the manufacturers of parts are completely dependent on orders from the few automobile manufacturers and are therefore sometimes reluctant to seek a “made in Canada” ruling.

The Minister of Finance, in the Supplementary Budget of December 18, 1960, proposed certain amendments to the Customs Tariff in so far as it related to the definition of “class or kind” made in Canada. The proposed amendment involves a shift of emphasis which puts the burden of proof on the importer to show that such goods are not made in Canada rather than on the Canadian producer to show that they are. In my opinion, as long as the relations between the

vehicle and parts manufacturers remain unchanged, it does not seem likely that this legislative revision will have a substantial protective effect on the parts industry.

Method of Tariff Change

Changes in tariff legislation are normally proposed by the Minister of Finance at the time of the Budget, and require the approval of Parliament. When proposed changes in automotive tariff items are being considered, the companies whose interests might be affected are consulted either individually or through their associations. If it appears that a change in the existing tariff structure would be beneficial, such changes are carefully designed to afford, as nearly as possible, an equal opportunity to all those competing in a market in Canada. All changes in the tariff legislation are tabled in Parliament and are subsequently embodied in the Customs Tariff. There appears, however, to have been some government action in relation to the automotive industry which has had no publicity and for which there appears to be no clear legislative authority. By this method, it is possible that the protective features of the Tariff and the competitive position of the companies involved may be altered without all the interested parties being considered. In my view, it would have been in the public interest to deal with these problems under the authority of the tariff legislation.

Content Requirement

The administration of the content provisions of the Customs Tariff has required the development of regulations defining what may be included in content. An extract covering the main points from the regulations will be found in Appendix V. I have heard suggestions for change but I have concluded that there is a great advantage in continuing the application of well-established rules and procedures. I would suggest, however, that the Department of National Revenue examine the procedures with a view to simplifying the administration and consequently reducing the cost to the industry.



Chapter V

Proposals made in the Briefs Presented to the Commission

A BRIEF review of the numerous, varied and sometimes conflicting proposals made to the Commission is here presented in order that the significance and purpose of my own recommendations, which will be stated and developed in the next chapter, can be more easily understood. I will first describe some of the most significant proposals that were made, quoting from the briefs. Following this, I will comment on the problems raised and my own views will emerge.

I shall examine six groups of briefs: those received from the automobile manufacturers, from the parts manufacturers, from the unions, from the Canadian export industries, from the consumers, and from the automobile importers. I do not suggest, of course, that there is unanimity on all points within each group.

Automobile Manufacturers

The automobile manufacturers submitted six briefs. The Automobile Chamber of Commerce submitted a brief on behalf of all the manufacturers, and each of the five manufacturing companies made a submission on its own behalf. The Automobile Chamber of Commerce urged that the 7½ per cent excise tax on automobiles be discontinued. (This proposal was also made in many other submissions and received unanimous endorsement from those who appeared before me or communicated with me.) A second recommendation was that

Royal Commission on the Automotive Industry

the sales tax, and the excise tax (if it were not removed), be imposed at the same level in the Canadian marketing process for domestic and imported vehicles. The Chamber maintained that to charge the sales and excise taxes on the dealer price in Canada for automobiles manufactured here and on the dealer price in the exporting country (rather than on the dealer price in Canada) for imported vehicles penalized the Canadian manufacturer. "This means," they write, "Canada not only allows these foreign cars to enter duty free but pays an actual bonus to their manufacturers." This point was also made by each of the manufacturers in turn.

The automobile companies put forward a variety of views and proposals. General Motors suggested that the removal of the excise tax and the equitable imposition of the sales tax would be sufficient to equalize the competitive position of the Canadian manufacturer *vis-à-vis* the importer. Chrysler proposed that "rates of duty on finished motor vehicles from all countries, including the British Commonwealth, be increased to a uniform level that will neither preclude importations, nor contribute to their competitive advantage, but will provide a greater measure of encouragement for existing domestic industries and, further, will provide a strong incentive to foreign producers to manufacture in Canada". Studebaker-Packard urged that "immediate steps be taken to induce foreign automobile manufacturers to set up operations in Canada". They hesitated "to suggest whether this be done by tariff changes, quotas, embargoes or other methods currently in use by various countries". American Motors proposed the elimination of the Commonwealth preference, as well as the elimination of the 7½ per cent excise tax on condition that Canadian content be met. A similar proposal concerning the excise tax was made by the Automotive Parts Manufacturers' Association (Canada).

The submission from the Chrysler Corporation raised two other points relating to "content". First, the submission argued that the present content requirement "creates a competitive cost disadvantage for low volume producers, who are forced to pay premium price for 'content', or a still higher price in duty penalty in event of failure to qualify for free importation". Second, the submission argued, as also did that of the Parts Manufacturers' Association, that the requirement of Commonwealth content should be changed to Canadian content. While admitting that Commonwealth content has to date been almost

Proposals Made in the Briefs Presented to the Commission

completely synonymous with Canadian content, the Chrysler brief pointed out a potential threat: "a Canadian subsidiary may import, for example, a knocked down U.K. vehicle, assemble it in Canada . . . claim the production as 100% British Commonwealth content in his total factory cost of production, and employ the resultant margin of gain over foreign content in importing duty free components for conventional American-type vehicle production, from the lower-cost U.S. markets".

Three of the five companies recommended exploration of proposals for closer integration of the productive facilities of the Canadian and United States manufacturers. The Ford submission indicated that such integration "could provide Canadian producers with the full cost benefits of U.S. mass production which would then be passed on to Canadian consumers. Adequately controlled by inter-company and inter-government agreement to insure continued growth of the Canadian industry relative to the Canadian economy, this arrangement could result in important benefits to Canadian consumers through lower prices." The Chrysler submission added that: "Such a plan, if deemed practicable . . . should not be restricted to trading with only one country". American Motors, in its brief, referred to the integrated basis on which the agricultural implement industries of Canada and the United States are now operating. It went on to urge thorough study of international company-to-company arrangements. "This arrangement would permit companies to set up an international manufacturing bridge between themselves. . . . Under this system, each country would be encouraged to produce not only the product or component which it is best able to produce but also to develop the basic skills of manufacturing, rather than depending on the elemental art of assembly alone." Similar proposals were made by others, as will appear below, and they were discussed at the Hearings.

Automotive Parts Manufacturers

The brief of the Automotive Parts Manufacturers' Association asserted that "the industry cannot survive without tariff protection". The Association proposed an increase in the duty on automobiles: those now entering duty free under the British Preferential Tariff to be charged 17½ per cent, those from Most-Favoured-Nation countries to be

Royal Commission on the Automotive Industry

charged 25 per cent instead of the present 17½ per cent. The Association also proposed that the excise tax on automobiles be related to Canadian content, with provision for progressive reduction of the tax as content increased. The basic rate of excise tax that they proposed was 15 per cent; they then proposed that this be halved if a certain content were achieved and be reduced to zero if a still higher content were achieved. The content requirements for zero tax would be 50 per cent up to 10,000 units annually, 60 per cent from 10,000 to 30,000 units and 70 per cent over 30,000 units.

The Association made proposals with reference to the tariff on automotive parts. It proposed that a rate of duty of 17½ per cent be imposed on parts imported from the United Kingdom under Tariff Items 438 b, c, f and i. These items are at present free. It also asked that past model service parts be included in a "basket" item in the Tariff, that they be subject to rates of duty of 17½ per cent under the British Preferential Tariff and 25 per cent under the Most-Favoured-Nation Tariff, and that they be free under both Tariffs if of a class or kind not made in Canada. It also stated its belief that "Canadians are prepared to pay for such protection, and if there should be an element of increased cost brought about by such protection, surely it is a small price to pay for the jobs of thousands of Canadians".

Submissions were received from some individual parts manufacturers. They all endorsed the proposals of the Association, but some went further and dealt with topics such as the determination of the "class or kind" status of certain automotive parts. Some would restrict the free entry of parts to those which "cannot be made in Canada", and would require the importer to "seek definite proof that the parts cannot be made in Canada".

Workers in the Industry

The United Automobile Workers, in its official brief, recognized that the basic problem is the low volume of motor vehicle production in Canada and that this is a problem "that can scarcely be dealt with by attempts to increase tariff protection". The Union went on to suggest the "integration of production facilities" along the lines of the

Proposals Made in the Briefs Presented to the Commission

plan now associated with the name of Dr. Keenleyside. The brief said: "In essence, we suggest that the Commission examine the feasibility of an international agreement which would permit free trade in the products of any motor vehicle manufacturing company provided that the company produced in Canada or had produced for it in Canada a quantity of motor vehicles and parts, sufficient to assure maintenance of current levels of employment at current production volume and future increases in employment parallel with the growth of the company's Canadian market". The Union recognized the possibility thereby of lowering costs and lowering prices "with an accompanying increase in Canadian car sales . . . and thus an increase in jobs in the Canadian automobile industry".

There are certain features of the proposal for integration made by the United Automobile Workers which should be noted. First, the Union took the view in later discussion that this action should be bilateral and could apply to all countries. Second, the Union brief urged that the arrangement should "assure maintenance of current levels of employment at current production volume and future increases in employment parallel with the growth of the company's Canadian market". Third, it called for a "bi-national tripartite management-labor-government board directed to keep under constant review each company's allocation of production and empowered to require periodic reallocation when necessary to accomplish the employment objectives of the proposal". Fourth, the Union noted that, during the transition from tariff to integration, "there would probably be a number of dislocations, the burden of which would fall on a limited number of plants and workers unless adequate precautions were taken in advance". It urged the exploration of means by which "such dislocations would be minimized and the burdens borne by all who stand to eventually benefit rather than just a few". Finally, it maintained that 60 per cent content did not "represent the most that manufacturers can reasonably be expected to attain without unduly raising the cost of cars". The brief quotes one of the District Councils as proposing 75 per cent Canadian content and adds that "the Gordon Commission envisioned a Canadian content of 90 per cent by 1980". But the brief asked the Commission to consider the conditions under which varying levels of content would be feasible. The official brief of the United Automobile Workers was endorsed by the Canadian Labour Congress.

Royal Commission on the Automotive Industry

Three groups within the United Automobile Workers presented briefs, each taking a strong nationalistic line. They rejected the proposed integration of productive facilities with the United States and advocated an immediate increase in Canadian content as a "step in the direction of an All-Canadian Car". These briefs supported the general plea of the official brief of the United Automobile Workers in their consideration of the injury to individuals through automation, technological change and "runaway plants", and in their plea that these costs of progress be borne by society rather than by the individuals directly affected.

Consumer and Export Interests

The Province of Saskatchewan presented a brief which may be taken as representing a group of submissions from parties concerned as exporters of primary products and consumers of cars and commercial vehicles. The brief of the Council of Forest Industries of British Columbia indicated an even more direct interest through the growing exports of plywood to the United Kingdom for the purpose of packing "completely knocked down" vehicles for export. Having in mind the interest of exporters, the Saskatchewan brief argued that the imposition of new duties might provoke retaliation, and that any reduction in the importation of cars would reduce the dollar-purchasing power of the United Kingdom and Europe. The Saskatchewan brief said: "The Commission will not need to be reminded of the fact that the United Kingdom is by far the most important market for Canadian wheat nor that Saskatchewan is the supplier of about two-thirds of Canada's wheat has a special interest in the maintenance and expansion of that international wheat market."

The Saskatchewan brief was one of many that was critical of the trend to bigger, more powerful and more expensive North American automobiles. It suggested that the remedy for increasing penetration of European motor vehicles in this market was entirely in the hands of the industry. The brief also argued that the real problem was economic recession. "Even if not a single motor vehicle were imported the domestic motor vehicle industry would still be facing difficulties as a result of the economic recession." The Saskatchewan brief also asked that "the industry give consideration to the production of a Canadian automobile, an

Proposals Made in the Briefs Presented to the Commission

automobile that would be more utilitarian, less subject to model changes, easier to repair and less expensive than the recent American models". Like some others, it asked that the Canadian Government consider "arrangements to enable both the Canadian and United States plants to share in all the North American market". In this context, it referred to the advantages accruing from the tariff-free movement of farm implements across the border. But the brief stopped short of recommending reciprocal free trade. It argued that: "Some assurance would be required from the companies concerned regarding the scope of their operations in both countries before the necessary tariff changes could be proceeded with."

Importers

The Society of Motor Manufacturers and Traders presented a submission on behalf of the automotive industry in the United Kingdom and submissions were also received from individual companies. There were four main themes in the Society's brief. First, it emphasized the service done to Canadian consumers by making available a great variety of cars and, in particular, smaller lower-priced cars. Second, it argued that the imported small British cars should be considered to be "an addition to the total sales of motor vehicles achieved by Canadian producers". Third, it pointed out that United Kingdom imports from Canada depend on continued importation of cars by Canada: "Any protectionist measure . . . aimed at reducing the sale of United Kingdom cars in Canada would, without doubt, have repercussions on Canada's exports to the United Kingdom." Fourth, it was critical of the change made by the Department of National Revenue in the method used in determining "fair market value". A representative of the Society termed this "inconsistent with the removal by the United Kingdom of practically all remaining restrictions on the import of Canadian goods".

Other Briefs

The selection of certain representative briefs for comment does not mean that the others have been ignored. All have suggested lines of thought that might not otherwise have been explored. I am

Royal Commission on the Automotive Industry

particularly grateful to the many individuals who assisted me by submitting their views. I propose to refer to, and comment on, four of these. First, I would quote the suggestion for "integration" made by a Toronto engineer. "Advise the five principal Canadian automotive manufacturers that in return for their undertaking to manufacture or have manufactured in Canada the percentage of their total North American manufacturing content that is equivalent to the percentage that their Canadian sales bear to their total North American sales, then the Canadian Government will grant them duty free entry for all North American manufactured automotive equipment." A Member of Parliament from Western Canada also made a very helpful suggestion. Following discussion of proposals for some form of free trade between Canada and the United States, he added, "A simpler application of this thinking would be to allow credit for Canadian content purposes for parts made in Canada but used in American production. Our automotive parts industry might well reduce the number of parts they are making but gain greatly increased volume on the remainder with consequent increased employment."

A professor of economics presented a strong case against protection. He maintained that the error of the American firms in failing to produce a smaller car was the significant factor in explaining the upsurge of imports. "The policy of American-owned firms could not, however, have persisted in error if Canadian public policy had not permitted it. It is the Canadian tariff which has allowed the big three to carry on undersized and inappropriate manufacturing operations. A 17½ per cent safety margin has apparently been sufficient to make unnecessary the uncomfortable decision to break with U.S. practice." He recognized the hazards of free trade and added, "surely the government of Canada can make it clear that it will not stand idly by while an industry which is well founded on Canadian soil is permitted to wither away. I have little doubt that a statement of policy along these lines is all that would be necessary. . . ."

Another professor of economics submitted a confidential brief arguing for the production of a Canadian-designed and Canadian-built automobile. His proposal, however, was very different from that of others who argued for a Canadian car. He proposed "an automobile designed for the Canadian market" not "an automobile whose content

Proposals Made in the Briefs Presented to the Commission

is one hundred per cent the product of Canadian factories". This kind of proposal involves less integration than is common on this continent. Thus a "Canadian car", as he used the phrase, "could mean a machine composed of a body designed in Italy (provided only that it was designed for the Canadian market), an American engine, an English electrical system, a German gear box, and so on".

Commercial Vehicles

The submissions dealt with so far had to do primarily with passenger cars. Some reference was made to light commercial vehicles but no special problems were raised and no specific proposals were urged. Heavy trucks and buses constitute almost a separate industry, with some special problems particularly because they are largely custom-built. Two parts manufacturers urged greater standardization of heavy-duty trucks so that parts could be made in greater quantity. One of these recommended an increase in the content requirement in the belief that this would bring about such standardization. One of the manufacturers of heavy vehicles asked that value for duty be more carefully established; another asked that sales tax be assessed on the same basis for imported and Canadian-produced vehicles; a third asked that the Canadian content be lowered to 30 per cent, or possibly to 20 per cent. It should be noted that, in this sector of the industry, "Commonwealth" content currently has real significance; indeed, the continued free entry of diesel engines from the United Kingdom is of vital significance.

Discussion of the Proposals

It is clear from the foregoing review of the briefs that the proposals which were made to the Commission reflect a spectrum of views ranging from free trade to high protection. My own views tend to a middle position. I see a possibility that some of the advantages of free trade may be enjoyed with the security of protection. My concern is to reconcile the interest of the consumers in low prices, that of the automotive producers in profits and employment, and that of the producers of primary products in export markets.

Royal Commission on the Automotive Industry

The idea of free trade has a certain attraction. Why not buy automobiles in the cheapest market? While this might mean that the automotive industry in Canada would be sharply reduced, why should we not then turn to the production of goods in which we have a comparative advantage? This question has been a subject of perennial controversy; it need not be resolved here. The decision was taken long ago to manufacture automobiles in Canada. Today, many thousands of workers and considerable capital resources are committed to the industry. Considering the state of development which the automotive industry has achieved in Canada, it would be socially irresponsible to adopt any policy which might lead to its drastic contraction. I cannot, therefore, accept the free-trade position. But neither can I accept the other extreme position, that of high protection. It would not be desirable to shield the industry from import competition by very high tariffs in an effort to guarantee continuing profits and employment. Canadians may be prepared to pay a somewhat higher price for automobiles than the free-trade price, provided there is an element of Canadian participation. But I believe that there is a point beyond which the cost of having an automobile industry in Canada would be so high as to become politically intolerable to the consumer. An attempt to preserve the industry by imposing high duties would lead to misallocation of resources and, indeed, it would be economically dangerous for the industry itself because, although the advocates of high protection seem to ignore this, high prices may lead to a contraction of the market. In the search for security, men turn to restriction. Restrictive policies may protect a particular job or a particular plant, but only in an expanding market can there be any real prospect of expanding employment and investment opportunities.

There was agreement that the excise tax on automobiles should be withdrawn. The excise tax is imposed on only a few products, most of which are in the nature of luxury goods. The automobile is no longer a luxury; conditions of modern living make it, in the majority of cases, a necessity. Under normal circumstances, the propriety of taxing it as a luxury is, in my view, anachronistic. In the context of an expansionist programme for the industry, relief from the burden of this special tax is particularly appropriate.

Proposals Made in the Briefs Presented to the Commission

The unanimous plea of the industry for equity in the imposition of the sales and excise taxes did not appear to be fully understood and appreciated by those who favoured a free-trade approach. In my view, the industry made its case that these taxes bear more heavily on the Canadian-produced automobile than on the imported one. The present bases used in assessing these taxes can have the effect of granting the importer of automobiles substantial relief from the 18½ per cent burden which the manufacturer of automobiles in Canada must bear in full. Indeed, the effective rate of the combined sales and excise taxes on the price at which imported automobiles are obtained by dealers in Canada has been as low as 14 per cent. Equity would seem to require that these taxes bear equally on all automobiles marketed in Canada. Even the most advanced free trader would not propose to subsidize imports.

Motor vehicles from the United Kingdom enter Canada duty free. They compete with vehicles produced in Canada which carry the cost of the protection provided for the domestic industries which supply automotive parts and materials. The Canadian manufacturer pays duty on many of the parts which he must import, and, in order to meet his content requirement, he must buy other parts in a protected market. Since he must also face the disadvantages of low volume in his own operation, it is not surprising that some of the automobile manufacturers asked that they be not subjected to the competition of duty-free imports.

The assumption of a completely segmented market, on which was based the argument of the representative of the British motor vehicle industry that small imported cars do not compete with the large American-type cars, is, in my view, quite unrealistic. In particular, it ignores the competition of the low-priced imported cars with used cars. The presence of these imported cars on the Canadian market tends to depress the prices of used cars; the consequent lower trade-in values have the same effect on the sale of new Canadian cars as an increase in their prices.

As part of the British Preferential system, the content requirement on motor vehicles produced in Canada has been "Commonwealth" rather than "Canadian". The "Commonwealth" content achieved to date has, nevertheless, been almost entirely "Canadian". But, as one of the manufacturers pointed out, the distinction could become im-

Royal Commission on the Automotive Industry

portant. Some have argued that General Motors and Ford should assemble in Canada the English models which they sell in the Canadian market. Such a suggestion ignores the possibility that if these cars were assembled in Canada they would qualify as having 100 per cent "Commonwealth" content. This would permit the Canadian manufacturers to reduce "Canadian" content in the production of their American-type vehicles, and could lead to a net decline in our automotive industry generally, even though more vehicles would be assembled in Canada. The prospect of such a disturbance in our automotive industry, in my view, argues in favour of some measure of protection against imports of unassembled vehicles from the United Kingdom.

The agricultural implement industry was cited by some as an example of the advantages to be gained from a reciprocal free-trade arrangement with the United States. A memorandum was prepared for me on this question. The experience of this industry clearly shows that integration is possible and can provide an escape from low-volume production in Canada. For instance, Massey-Ferguson Limited concentrates all its production of combines in Toronto and imports a large variety of implements from its factories in the United States. I noted, however, that employment in the agricultural implement industry fell 36 per cent in Canada between 1947 and 1957, and fell only 20 per cent in the United States. I also noted that, in recent years, Canadian implement companies have found it more profitable to expand their manufacturing facilities outside of Canada. While the experience of this industry tends to confirm the view that advantages might accrue to the automobile industry through some form of integration, I nevertheless believe that any proposal for promoting such a plan must be combined with some protective device to assure Canada a fair share in the manufacture of automobiles for the expanding market.

Moving from proposals for reciprocal free trade, one comes to proposals for integration with guarantees. These proposals were mostly variants of the plan proposed for more general industrial application by Dr. Keenleyside. There were those who argued that any such arrangement must be bilateral. I shall argue later that an advantageous scheme of integration could be implemented by unilateral action. Some advocates of integration proposed guarantees centering on an employment objective. I do not believe that this would be appropriate. Any plan

Proposals Made in the Briefs Presented to the Commission

for integration, however implemented, should be directed primarily to securing for our automotive industry an increasing share of production in an expanding market. If technological advance decreases the man-hours required to produce an automobile, this objective and the employment objective could be achieved simultaneously only if the expansion of the market were adequate to offset the decline in man-hour requirements.

I shall argue that a unilateral arrangement can be made to provide freer trade in the Canadian automobile market and that the implementation of such a plan can substantially reduce the cost (and the price) of motor vehicles produced in Canada. An expanding market for Canadian-produced vehicles and consequent increase in automotive employment should follow. However, I recognize that any move towards freer trade in motor vehicles will cause some dislocation in the industry and I am not without sympathy for those firms and employees who may be hurt in the process. Growth and development must always cause some dislocation in the established routines of life and work. But the overall benefits accruing to the Canadian economy from my plan for the automotive industry will, in my estimation, far outweigh any disadvantages which might arise for firms and employees who find it difficult to adjust to these changing conditions. It is my hope that my proposals will be sufficiently expansionist that the pain of dislocation would be minimized by the development of increased opportunities. Since it is the community as a whole that will derive much of the benefit from my plan, its costs in terms of dislocation and readjustment should be borne largely by the community. I have no doubt that means can be found to achieve these ends, but this is a matter of general social policy and I do not feel that it is within my terms of reference to recommend such general policies. Nor do I feel, however, that the eventuality of certain adjustment problems is sufficient reason for withholding my proposal.

Moving further towards the protectionist side of the spectrum of opinions expressed in the briefs, I found growing resistance to the idea of integration. The resistance was largely to integration with the automotive industry in the United States, and it was based, in part, on nationalistic sentiments. I believe that the maintenance of our national identity is of prime importance, but I do not believe that the

Royal Commission on the Automotive Industry.

interdependence which stems from trade is a threat to national independence. I also believe that trade which increases our wealth and industrial strength can contribute to the development of our cultural and political independence. Resistance to the idea of continental integration also stems, in part, from the fear of economic dislocation referred to above.

As an alternative to integration, high protection was proposed. One proposal would impose a duty of 17½ per cent on automobiles imported from the United Kingdom and raise the duty on those imported from Most-Favoured-Nation countries to 25 per cent. In this scheme, further protection would be achieved by raising the excise tax to 15 per cent with provision for partial or complete exemption as certain Canadian content requirements were met. This would mean that a Canadian manufacturer, if he met the increased content requirements, would have a maximum protection which would be of the order of 35 per cent against the United Kingdom and of 44 per cent against Most-Favoured-Nation countries. Such a degree of protection would, in my view, be detrimental to the Canadian consumer and to the Canadian automotive industry. Though some short-run advantage might accrue to the parts producers, in the long run it might lead to a contraction of the market and a consequent reduction in the production of all automotive products.

As has already been shown, the Canadian automotive parts industry is protected by two devices, directly by duty and indirectly by "content". The use of these two protective devices in combination has placed the low-volume producer at a competitive disadvantage. The use of content, without duty applying to certain parts, would permit the manufacturer to select for production in Canada those parts for which the competitive disadvantage of low-volume production is least. In my view, this indirect device ensures Canadian participation at a minimum disadvantage to the consumer and to the manufacturer, and is the most desirable. In selecting the degree of content to be required, it is necessary to keep in mind that too high a content requirement might so increase costs as to cause a contraction of the automotive industry. The economies of large-scale production are important in this industry. The higher the content required on a given scale of production, the further the costs will rise as certain parts can only be produced economically in large volume. Only in a country

Proposals Made in the Briefs Presented to the Commission

which produces motor vehicles in a volume sufficient to benefit from all the economies of large-scale production would it be possible to impose a 100 per cent national content requirement without adding to the costs of production. Those who have proposed an all-Canadian car seem to have ignored this added cost feature. The advocate of a Canadian car assembled from parts produced in large volume in other countries has appreciated the cost advantage of large-scale production and has accepted the prospect of a nominal Canadian content. So this last proposal for an all-Canadian car takes us from one end of the spectrum to the other.

There were some who argued that such problems as the automobile industry had were the result of a slowing down in the rate of growth of national income. True, the automobile industry, like other industries producing consumer durable goods, is particularly sensitive to changes in the pace of economic activity. True, in a period of reduced economic activity, consumers become more price conscious and this has favoured the lower-priced imports. True, the vehicles imported during the last few years could have been absorbed with less disturbance to the Canadian industry in a more rapidly expanding market and a revival of growth in national income would certainly bring a more buoyant market for automobiles and other durable goods. In this respect, the problems of the automotive industry are those of a number of other Canadian secondary industries. But the fundamental problems which the Canadian automotive industry faces today are not of domestic origin; they derive from the change in its competitive position *vis-à-vis* the industry outside Canada. I have been particularly impressed by the growing strength of the industry in the major automobile producing countries, and I have reached the conclusion that measures to strengthen the Canadian automotive industry are imperative if it is to withstand the intense import competition which I foresee. My proposals have been devised with special reference to this long-run need to adjust to the changing world market. While I did not find that this industry was in a condition which could be called "distressed", I think that it will derive an immediate stimulus from my proposals. The expected reduction in the price of cars should improve the position of the manufacturers and the workers, and should enable the industry to compete more effectively. A stimulus to this industry will provide some stimulus to the Canadian economy as a whole.

Royal Commission on the Automotive Industry

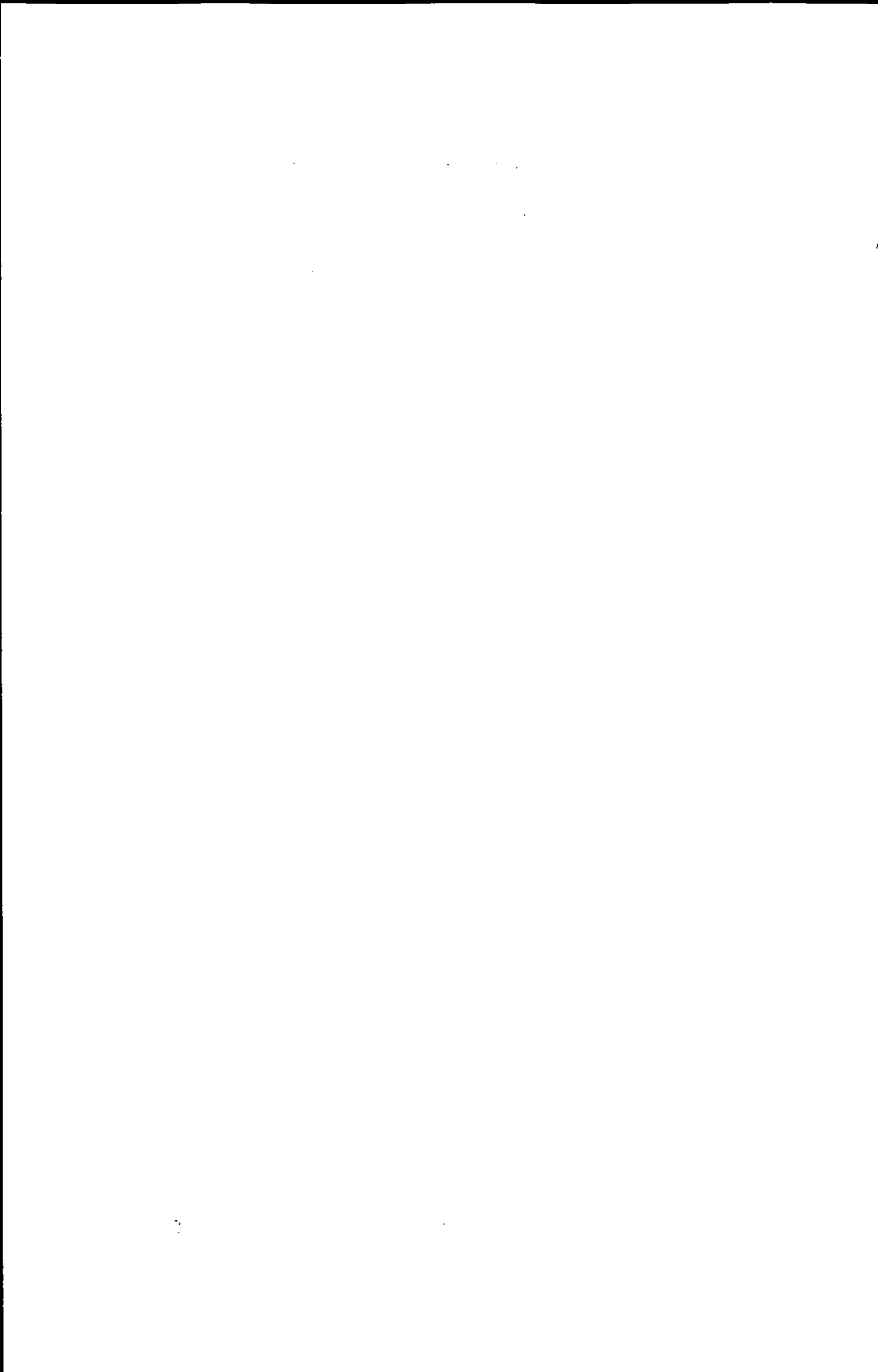
In the course of the Hearings, there was considerable discussion of the lack of research undertaken by the Canadian automobile industry. It is a matter of regret that the American parent automobile companies have not seen fit to locate some part of their research activity in Canada. We have the engineers and scientists that would be required, indeed we export them in undue quantity to the United States. Whether government policies favourable to an expansion of research activity in industry generally can be expected to provide enough incentive for such development in this industry is uncertain. In general, I am not in favour of relying on "persuasion"; but, in this case, I am inclined to urge the Canadian automobile companies to press their United States parents to let them have a share in the total research programme. They might find it would result in effective research at lower cost. Certainly, it would be good "public relations".

Finally, there were those who criticized the multiplicity of models, praised the virtue of standardization and even proposed the development and production in Canada of a distinctively Canadian automobile. The fundamental weakness of these views lies in the fact that they fail to take into full consideration the disadvantages inherent in the relatively small size of the Canadian market and to recognize its basic similarity to that of the United States. The cost of developing, producing and marketing a "new" automobile is extremely high and, with the large number of models now available in Canada, there is no assurance that a distinctively Canadian vehicle would gain the favour of a significant portion of the buying public, even in Canada. It seems to me that a nation largely dependent on imported capital for its economic development might seek means of asserting its national identity which do not require it to commit capital resources to a venture such as the launching of an automobile in a market with relatively easy access to so wide a variety of models.

It should also be remembered that multiplicity of models, frequent model changes and other such "evils" are basically a function of demand and do not, as has been suggested, depend primarily on the whims of automobile designers. The behaviour of the automobile manufacturer is determined by the competition for public acceptance of his product; that behaviour will not cease to be so determined unless steps are taken to direct or control the processes of market competition. In considering whether such steps should be taken, it should be kept in

Proposals Made in the Briefs Presented to the Commission

mind that competition has, on the whole, favoured the consumer and led to rapid rates of technological advance. While standardization might lead to certain short-run economies, in the long run it might diminish the incentive derived from competition and lead to a weakening of the whole fibre of private industry. I have, therefore, not been persuaded to make any recommendations which would have the effect of restraining the competitive tendencies of the automobile industry.



Chapter VI

Recommendations

I PROPOSE to list my recommendations and then to discuss each separately. I want to emphasize, however, that these are not discrete items from which a selection is invited; they constitute a unitary plan, a programme for the continued development of the automotive industry in Canada. They constitute an attempt to deal with the fundamental dilemma arising from a dual concern for the consumer and the producer in the context of world competition. The fundamental principle of the plan is that of protection of the parts industry through "content", and that of reduction in the cost of such protection through a concept of "presumed" content whereby Canadian parts incorporated in motor vehicles produced outside of Canada for sale anywhere in the world may count for content. Each of the first six proposals, relating to excise tax, sales tax, and customs duty, is desirable in itself as providing more equitable competitive conditions for the Canadian industry. Without them, the seventh proposal, relating to "content", could not have a fair trial.

From the outset, I have been aware of Canada's obligations under the General Agreement on Tariffs and Trade; and I have recognized that a new measure of protection for the automotive industry in Canada might require concessions on our part. I have, therefore, tried to avoid recommending measures that would involve renegotiation under that Agreement. I have, however, found it necessary to make two recommendations which require changes in the British Preferential Tariff.

Royal Commission on the Automotive Industry

List of Recommendations

I recommend:

1. That the excise tax of 7½ per cent on passenger automobiles, as described in Schedule I of the Excise Tax Act, be removed.
2. That the base for the application of sales tax on imported motor vehicles, under the Excise Tax Act, be changed from the "duty paid value" to the "sale price" to the retailer (dealer) in Canada, and that Section 29(1) be amended accordingly.
3. That the sales tax on motor vehicles under the Excise Tax Act be assessed on a price equivalent to a "notional" wholesale price by discounting the price to the retailer (dealer), and that Section 29(1) be amended accordingly.
4. That, under the British Preferential Tariff, a rate of duty of 10 per cent be established on such motor vehicles as are provided for in Tariff Item 438*a*.
5. That, under the British Preferential Tariff, a rate of duty of 10 per cent be established on such automotive parts as are provided for in Tariff Items 438*b*(2), 438*c*, 438*d*(1), 438*e*(1), and 438*f*.
6. That, wherever "Commonwealth content" appears in the provisions of Tariff Items 438*c*, 438*d*, and 438*e* of the Customs Tariff, the provisions of these tariff items be amended to read "Canadian content".
- 7(*a*) That all motor vehicles under Tariff Item 438*a*, and all automotive parts for use as original equipment, or in repair, as provided for in the automotive schedule of the Customs Tariff, be admitted duty free provided that the Canadian content requirements, as set out in recommendations 7(*e*) and 7(*f*) are met.
- 7(*b*) That provision be made that parts, which under present regulations are included in content when embodied in a motor vehicle assembled in Canada, be considered as content if embodied in vehicles produced in any country for sale anywhere, and that repair parts produced for sale in Canada or for export also be considered as content.

Recommendations

- 7(c) That the Canadian content requirement be determined as a percentage of the sum of the factory cost of motor vehicles produced in Canada, of the value for duty of imported motor vehicles, and of the value for duty of imported repair or past model service parts for such vehicles.
- 7(d) That any company proposing to qualify for free entry of its automotive products under 7(a) may include or exclude any subsidiary or associated companies. In the event that such subsidiary or associated companies are included, the group shall be treated as a unit in the application of the proposed content requirement.
- 7(e) That the percentage of Canadian content which a manufacturer of passenger automobiles (Tariff Item 438a) must achieve in order to qualify for duty-free entry under 7(a) shall be determined according to the following schedule.

If the number of passenger automobiles produced in Canada and imported under the "extended content" plan is as follows:

up to 5,000	30 per cent
on the next 15,000	50 per cent
on the next 30,000	60 per cent
on the next 50,000	65 per cent
on the next 100,000	70 per cent
on the excess over 200,000	75 per cent

The percentage of Canadian content required to qualify for duty-free entry shall be:

- 7(f) That the percentage of Canadian content which a manufacturer of commercial vehicles enumerated in Tariff Items 410a(iii), 424 and 438a must achieve in order to qualify for duty-free entry under 7(a) shall be determined according to the following schedule.

If the number of commercial vehicles produced in Canada and imported under the "extended content" plan is as follows:

up to 5,000	30 per cent
on the next 15,000	50 per cent
on the next 30,000	55 per cent
on the excess over 50,000	60 per cent

The percentage of Canadian content required to qualify for duty-free entry shall be:

Royal Commission on the Automotive Industry

- 7(g) If the proposed content requirements are not met in any year, the duty provisions of the automotive schedule of the Customs Tariff shall apply.

1. Removal of the Excise Tax

I recommend the removal of the excise tax of $7\frac{1}{2}$ per cent on passenger automobiles as an immediate stimulus to the industry but I consider this action to be of long-run importance in contributing to the development of the industry under the new conditions which I propose. In commenting on the briefs, I have indicated my view that the automobile is no longer a luxury and that, under normal conditions, it should not be singled out for special taxation. However, I make this recommendation essentially on grounds of expediency from the point of view of the producers rather than on grounds of justice to the consumers. Though the tax would be removed from imported automobiles as well as from those produced in Canada, it is my view that the larger absolute reduction in the price of the higher-priced Canadian models would improve their position in relation to the lower-priced imported models.

I recognize that this tax produces substantial revenue. Its removal may be considered to involve too large a loss to the Treasury. But this proposal must be considered in the context of expansion, immediate expansion resulting from the stimulus of lower prices and long-run expansion resulting from the adoption of my plan as a whole. My proposals with reference to the base for sales tax will either produce an increase in tax revenue derived from imported automobiles or will increase taxable labour income and profits in the Canadian automobile industry. My proposals for increasing the competitive strength of the industry should further increase employment and profits in this industry. Higher levels of employment and profits in this industry would have "multiplier" effects on the level of employment and profits in industry generally. The revenue of the Government should increase with such growth in the national income.

2. Base for the Application of Sales Tax

The Excise Tax Act provides that the base on which the sales tax is assessed on motor vehicles in Canada is the manufacturer's

price to dealers. For imported vehicles, it provides that the base be the "duty paid value", which, in essence, is the manufacturer's price to dealers in the home market plus duty if applicable. The sales tax on vehicles produced in Canada is assessed on the costs incurred by the manufacturer in placing his product in the hands of the dealer in Canada; it would seem reasonable that imported vehicles be taxed at that same level. It might be argued that, in so far as the Canadian market is concerned, the process of production of imported vehicles has not really been completed until they are ready for retail distribution in Canada. The importer's price to a dealer in Canada is substantially higher than the manufacturer's price on a similar vehicle to a dealer in the country from which the vehicle is exported. It has been determined that the margin of difference usually amounts to about \$250; but it has been as much as \$500 on certain models in the medium-price range. It is my contention that the costs of shipping, advertising, handling and other charges which are incurred in the process of marketing an imported vehicle in Canada are an essential part of the cost of producing an automobile for use in Canada. This portion of the cost of an imported vehicle should therefore be subject to sales tax. The omission of these costs from the tax base means that, in comparison with dealers who sell Canadian-produced vehicles, those who sell imported vehicles get substantial relief from the Canadian sales tax burden. This reduces the degree of tariff protection intended by the legislation against vehicles imported from countries subject to the Most-Favoured-Nation rate of duty, and is the equivalent of a subsidy to the importer on vehicles brought in free of duty under the British Preferential Tariff. In the latter case, the Canadian manufacturer must, in effect, compete against imports which are entitled to freer than free entry.

I know of no other country that places domestic manufacturers at a disadvantage in meeting import competition. The United Kingdom levies its purchase tax on imported goods, as on all goods, on their wholesale value in the United Kingdom. The United States applies its excise tax on all automobiles on the price of the automobile in condition for delivery to the purchaser in the United States.

The Canadian excise tax is computed on the same base as the sales tax. I have not referred above to the excise tax because I have recommended its removal. However, as long as it is retained, and is

Royal Commission on the Automotive Industry

so based, it adds to the competitive disadvantage of the domestic manufacturer *vis-à-vis* the importer. This is shown in the table given below which is drawn up to demonstrate the effect of computing the sales and excise taxes on imported vehicles on the present bases. It will be remembered that sales and excise taxes on an automobile produced in Canada amount to 18½ per cent of the manufacturer's price to the dealer; by contrast, the examples in this table show these taxes as representing 15.3 per cent of the importer's price to the Canadian dealer when the vehicle is imported under the British Preferential Tariff and 15.7 per cent when it is imported under the Most-Favoured-Nation Tariff.

ILLUSTRATION OF THE EFFECTIVE RATE OF SALES AND EXCISE TAXES ON IMPORTED PASSENGER AUTOMOBILES SOLD IN CANADA

	<i>British Preferential Tariff</i>	<i>Most- Favoured- Nation Tariff</i>
Fair market value	\$1200	\$1200
Duty at 17½ per cent where applicable.....	nil	210
Duty-paid value	1200	1410
Excise tax at 7½ per cent	90	106
Sales tax at 11 per cent	132	155
Total sales and excise taxes	222	261
Price to dealers of vehicles laid down in Canada	\$1450	\$1660
Sales and excise taxes as a percentage of the price to dealers in Canada	15.3	15.7

How far the amount of these combined taxes will fall below 18½ per cent of the price to the dealer in Canada depends on how wide is the gap between the price to the dealer in the home market and the price to the dealer in Canada. This varies among manufacturers according to their distance from Canada, their ability to reduce the added costs involved in export, and their policy with reference to profits. The examples in the table above assume an advance in price of \$250, or 21 per cent of the dealer price in the home market. This is a hypothetical figure, but it is of the correct order of magnitude. Though the assessment

Recommendations

of the sales and excise taxes on these two bases gives a competitive advantage to any imported motor vehicle, the advantage to imports from the United States is relatively small because of the proximity of that country to Canada. The difference in the bases on which taxes are assessed has become more important as imports from more distant sources overseas have come to provide the principal competition for the Canadian industry.

Although my Commission limits me to consideration of the automotive industries, I would point out that manufacturers in other Canadian industries are at a similar disadvantage. In its general aspect, the problem was noted by the Sales Tax Committee which reported to the Minister of Finance in 1956. To deal with it, that Committee recommended that the sales and excise taxes be based on the prices at which retailers purchase all goods whether imported or produced in Canada.

It is my belief that the re-adjustment of the relative burden of the sales tax is a matter of equity and also that it would be of sufficient magnitude to have a favourable effect on Canadian automotive production.

3. "Notional" Wholesale Price as the Base for Sales Tax

The Excise Tax Act provides that the sales tax be levied on the manufacturer's sale price. Thus, the amount of tax is affected by the method of distribution which prevails in an industry. Where the pattern in a particular industry is one of distribution through a wholesaler or distributor, the tax is based on the manufacturer's price to the wholesaler or distributor. In the automobile industry, the pattern is one of direct sale by the manufacturer to the retailer or dealer. This tax should surely be neutral as between forms of market organization in different industries. I propose, therefore, that the Excise Tax Act be revised to provide that, for the purpose of computing sales tax on motor vehicles, the "sale price" be a "notional" wholesale price. This "notional" wholesale price would be the manufacturer's sale price to the dealer less an appropriate "notional" discount. The "notional" discount should be determined having in mind the special conditions of the industry and the costs of distribution assumed by the manufacturer

Royal Commission on the Automotive Industry

in the absence of a wholesaler or distributor. I believe that 5 per cent off the dealer price would be a reasonable discount for this purpose in the automobile industry. This was the extra discount allowed under Canadian law prior to May 2, 1936. Inquiries in the United States suggest that this is still a reasonable figure and that, where distributors do exist in the industry, this is approximately the additional discount granted to a distributor.

This reduction in the tax base would reduce slightly the price of all motor vehicles and, as it would be equally applicable to domestic and imported vehicles, it would not affect the equitable balance sought by my other recommendation for revision of the base for assessing sales tax. A similar proposal with respect to the base for sales tax was made, for general application, by the Sales Tax Committee in 1956. I am aware that this change in tax base would partially offset the gain in tax revenue derived from imported automobiles which might result from my other proposal with reference to the sales tax. It is expected, however, that these two proposals would have sufficient expansionist effect on the domestic industry to produce a net gain in total sales tax revenue from automobiles.

4. British Preferential Tariff Rate on Automobiles

Motor vehicles from the United Kingdom have entered Canada duty free since 1932. When this arrangement was first made, the number of vehicles imported from the United Kingdom was small. Since World War II, the United Kingdom automobile industry has achieved a much stronger position in the world market. In 1959, vehicles imported from the United Kingdom accounted for 15 per cent of the new vehicles sold in Canada, and for 46 per cent of all imported vehicles.

The case for the imposition of a tariff on completed vehicles imported into Canada is based on recognition of the burden on the Canadian automobile manufacturers of the protection afforded to the manufacturers of parts. In order to secure free entry of certain parts, where the additional cost of production in Canada would be especially high, the automobile manufacturer is required to achieve a certain Commonwealth content. (In fact, the "Commonwealth" content achieved so far has been almost entirely "Canadian" content.) As a result,

Recommendations

the manufacturer has had to buy some automotive parts from Canadian sources at prices somewhat higher than those at which they could be obtained in the United States. As it has been explained in Chapter III, the low-volume automobile manufacturer has particular difficulty in buying from Canadian sources those parts whose production is particularly subject to the economies of scale. In many cases, a low-volume manufacturer finds it less costly to buy such parts in the United States and pay whatever duty is applicable. It is impossible to determine how much the production costs of Canadian motor vehicles are raised because manufacturers have to buy some of their parts in a protected market rather than in a free market. However, the amount of duty paid on parts imported for the manufacture of vehicles can be ascertained. It is considerably larger for the low-volume manufacturer than for those manufacturers who produce in Canada on a larger scale; for one low-volume manufacturer, the amount of duty on production parts amounted, on the average, to \$85 per vehicle compared with about \$20 for a larger manufacturer. Finally, one should note that, in part, the protection to the parts manufacturer is based on a recognition of the burden which he, in turn, has to carry as a result of the protection afforded producers of materials which he buys.

The case for protection of the motor vehicle manufacturer under these circumstances is a case for protection against imports of motor vehicles from all countries. It would seem unreasonable to subject the Canadian manufacturer, thus burdened, to free trade. It seems equally unreasonable to subject the manufacturer to duty-free imports from one country, particularly if that country has a highly developed motor vehicle industry. In my view, we cannot afford to continue the duty-free importation of motor vehicles from the United Kingdom as long as it is necessary to provide some form of protection for our automotive parts manufacturing industry.

Logically, this argument would lead to a recommendation for the imposition of the same rate of duty under the British Preferential Tariff as exists under the Most-Favoured-Nation Tariff. I recognize, however, the political and economic significance of the British Preferential system and I recommend continuing preference. I have concluded that a rate of duty of 10 per cent should apply under the British Preferential Tariff. Such a rate of duty on motor vehicles imported from the United Kingdom along with the other changes in taxes and

Royal Commission on the Automotive Industry

duties which I have recommended, would, in my considered judgement, permit that expansion of the Canadian industry which I seek to promote.

I should point out that the duty-free entry of a large proportion of the motor vehicles now imported from the United Kingdom could continue under the new content proposals which are discussed below. It would be relatively easy for General Motors and Ford to take advantage of these proposals because they have production facilities in Canada. These two companies account for some 60 per cent of the vehicles imported from the United Kingdom into Canada. Other automobile manufacturers in the United Kingdom might find it possible to secure duty-free entry through association with a Canadian manufacturer or through the production or purchase of parts in Canada.

5. British Preferential Tariff Rate on Automotive Parts

Automotive parts manufactured in the United Kingdom have also entered Canada duty free since 1932. Not only are they duty free, but as long as the content requirement in the Canadian Tariff reads "Commonwealth content", the parts manufacturer in the United Kingdom may be said to share the protection afforded to the manufacturers of parts in Canada. My proposal to require "Canadian content" would deprive the parts manufacturer in the United Kingdom of this protection and would make unlikely any considerable purchase from the United Kingdom of production parts for American-type vehicles, whatever the rate of duty. I recommend that the British Preferential rate of duty be 10 per cent on parts which are provided for in the automotive schedule of the Customs Tariff and are dutiable under the Most-Favoured-Nation Tariff. I recommend a flat rate of 10 per cent with a view to maintaining a preference. Again, I refer to the possibility of continued duty-free entry under the proposed new content provisions.

6. Canadian Content

The content provisions of the automotive schedule of the Tariff were designed to promote the development of the parts manufacturing industry in Canada. These provisions, however, specify "Commonwealth" content. While this has not been significant to date, with the

increasing consumer acceptance of the English models sold by Ford and General Motors, the present legislation could favour extensive use of parts imported from the United Kingdom. If these models were to be assembled in Canada, not only would the parts be duty free but also these parts would count for content to their full value. With the advent of the "compact" car, a real possibility has developed that certain parts required in the manufacture of these cars might be obtained in the United Kingdom.

In the context of my overall plan, this proposal assumes new importance and indeed becomes an essential part of my programme for the industry. This programme could encourage assembly in Canada but, without a change in the definition of content, the participation of the Canadian parts industry in such a development could not be assured. I therefore recommend that, wherever the word "Commonwealth" appears in the content provisions of the automotive schedule of the Customs Tariff, the word "Canadian" be substituted.

7. Extended Content Plan

The plan for the development of the automotive parts industry through a content requirement has proved successful. The time has come for a further imaginative move in the same direction. The increasing industrial maturity of this country, the increasing world competition in the automotive industry, and the increase in the scale of production necessary for economical operation resulting from new technology have created an entirely new environment for the Canadian automotive industry. In 1936, it was appropriate to provide that motor vehicles produced in Canada should have a given "content"; in 1961, it seems proper to extend the application of "content" to the total Canadian automotive market.

In 1936, the objective was to promote the assembly of motor vehicles in Canada because the presence of such assembly gave reasonable assurance of the success of our efforts to develop parts manufacture in Canada. Under the proposed plan, assembly is likely to increase but a relatively greater stimulus will be afforded to the production of parts. The automotive parts industry has developed to a point where the advantage of participation in a wider market can be sought.

Royal Commission on the Automotive Industry

The Canadian automotive industry is subject to the disadvantages of low-volume production as long as it is geared almost exclusively to the Canadian market. To break through the limits imposed by low-volume production in Canada, it is necessary that manufacturers be in a position to benefit from the lower costs possible from higher volume production. This could be achieved if Canadian manufacturers were in a position to produce parts for a wider market and if automobile manufacturers also had duty-free access to the products of lower-cost, higher-volume producers in other countries. This means freer trade. One way to achieve this would be to arrange for reciprocal free trade with one or more countries on the pattern followed by the agricultural implement industry. In my view, reciprocal free trade would involve considerable risks for the automotive industry. My "extended content" plan removes these risks and secures many of the advantages of free trade, but it is not essential that it be implemented by reciprocal agreement.

While I believe that the plan that I propose will benefit not only the Canadian automotive industry but also all those who wish to participate in the Canadian market, I put it forward as an alternative to the present tariff arrangements. Companies would be free to choose the arrangement under which they wish to operate. They might continue to operate under the content arrangements of the present tariff; but if they choose to operate under my alternative plan, they should be required to indicate their intention and they should be committed for at least a "model year".

7 (a) Conditional Free Entry of Vehicles and Parts

Under the present Tariff, a manufacturer of motor vehicles who meets the prescribed content may import free of duty certain parts of a class or kind not made in Canada. Under the proposal here recommended, a manufacturer who meets the new content requirement would be allowed to import free of duty completed vehicles and any parts. The free entry of such parts is not, under my plan, conditional on their also being of a class or kind not made in Canada. True, this means extension of the duty-free provisions. However, it should be noted that, in order to qualify for the privilege, the motor vehicle manufacturing industry would be required to increase the amount

Recommendations

of its purchases, or of its production, of automotive products in Canada. On balance, the Canadian automotive industry would gain by extending its participation in the total automotive market. In order to ensure that all free entry be conditional on content being earned by automobile manufacturers in Canada, it is suggested that where free entry of automotive parts has been permitted from time to time by Order in Council, as in the case of automatic transmissions, that these special provisions be allowed to lapse and the statutory rates of duty be effective.

In my view, the prospects for the development of the parts industry are through expansion based on lower costs. If lower costs increase sales of vehicles (particularly of vehicles produced in Canada), the total business of the Canadian parts industry will increase. Protection by content rather than by duties on specific parts has the great advantage that it promotes the development of those sectors of the industry that are soundest economically. It preserves a measure of protection which, I believe, will ensure that the automotive industry will expand along with the total motor vehicle market. This form of protection has the advantage of free trade in that production is directed into the areas with the greatest competitive advantage. Protection by customs duties may fail to induce production if the economies of large-scale production are greater than the duty imposed, otherwise it may induce inappropriate production. By imposing a heavier burden on the low-volume manufacturer, customs duties on parts reduce his competitive effectiveness. This is, in my view, inequitable and it is inexpedient in a market already dominated by a few producers.

7 (b) "Notional" Content

The most important extension of the content provisions of 1936 is embodied in my proposal that parts produced in Canada may be considered as "Canadian content" if the parts are incorporated in vehicles manufactured outside Canada for sale anywhere, or if they are sold at home or abroad for repair or replacement purposes. This recommendation is based on my belief that the industry would find it as advantageous to manufacture engines, for instance, for vehicles assembled in Detroit as it would to assemble vehicles in Canada embodying important elements manufactured in the United States. Under this pro-

Royal Commission on the Automotive Industry

posal, the parts that might count as content are those which count as content under the existing legislation and include, in addition to those parts covered by the automotive schedule of the Customs Tariff, such other parts as tires and batteries. While "notional" content so interpreted is as protective as the present content arrangement, it would permit the manufacturer greater flexibility in choosing how content will be earned. Though it continues protection to the parts industry, this protection would be less burdensome to the Canadian automobile manufacturer and to the Canadian consumer. Being less burdensome, it opens the way to an increasing share of an expanding market.

The inclusion of parts, whether for current or past model service, under those content provisions is a matter of direct concern to the consumer. To apply the same content requirements to these imported parts as to vehicle manufacture should assure the Canadian industry of a greater share of total automotive production. Duties without such protection do not necessarily lead to Canadian production but may lead instead to an additional cost to the Canadian consumer. The inclusion of service parts in this proposal should facilitate the participation in the "extended content" plan of those foreign manufacturers who do not have manufacturing facilities in Canada.

I realize that this proposal for "notional" content would be more effective if our exports did not have to overcome the tariffs of other countries. But I propose unilateral action in the belief that, even on this basis, it would be advantageous to Canada. The prospect to the foreign automobile manufacturer of being able to extend his market by exporting vehicles duty free to the protected Canadian market should encourage him to buy the required amount of Canadian parts, even though the laid-down cost of these parts might be somewhat higher than the price at which they could be secured at home. Certainly, I believe that some re-allocation of automotive production would result from the adoption of this plan in spite of the existing foreign tariffs against parts. Initially, such re-allocation is most likely between Canada and the United States.

7 (c) Total Canadian Market as the Base for Content

Under the existing legislation, "content" is related to the factory cost of production of Canadian motor vehicles. Under my proposal, in

Recommendations

order to qualify for duty-free entry of motor vehicles and automotive parts, a manufacturer must secure the prescribed content as interpreted under 7(b) in relation to the sum of the factory cost of motor vehicles produced in Canada and the value for duty of imported motor vehicles and repair or service parts. This will open the way to Canadian participation in a segment of our automobile market from which we have been excluded, namely the market for imported vehicles which, in recent years, has constituted more than a quarter of the total new motor vehicle market in this country. It also opens the way to larger Canadian participation in the "after market" for parts.

7 (d) Unit of Organization for Extended Content

Any company proposing to qualify for free entry of its automotive products may, under this plan, include or exclude any of its subsidiary or associated companies. Particular problems arise when considering the arrangement appropriate to a company operating in several other countries as well as in Canada. Ford and General Motors have sister companies in the United Kingdom and in Germany; Chrysler has an associate in France. My proposal is that any one of the parent, sister or associate companies may be included in, or excluded from, the unit for content purposes. If any is included, I propose that the content requirement be based on the total unit sales in Canada of the companies as a group. I also propose that the content may be earned on behalf of the group in any part of its operations. For instance, if General Motors (Canada) entered into this arrangement with General Motors (United States), the arrangement might include Vauxhalls but exclude Opels. If it included Vauxhalls, the percentage content required would be based on the sum of the factory cost of vehicles produced in Canada and the value for duty of vehicles and repair parts imported from the United States and the United Kingdom. This content could be achieved by increasing the Canadian content of the Canadian vehicles or by supplying Canadian-produced parts to the United States and/or to the United Kingdom, to Australia or to any country for that matter. It would be possible for any overseas company to associate with a Canadian automobile manufacturer to take advantage of this proposal in order to secure duty-free entry of vehicles and to take advantage of this association in meeting the content requirement, wherever in the group it could be most economically achieved.

7 (e) Content Schedule for Passenger Automobiles

The present content provisions of the Customs Tariff for passenger automobiles is 40 per cent of the factory cost if production does not exceed 10,000 units per year, 50 per cent of the factory cost if production exceeds 10,000 but does not exceed 20,000 units per year, and 60 per cent of the factory cost if production exceeds 20,000 units per year. Since the Tariff Board established these classes in 1936, the economies of large-scale production have increased. In my view, it is easier today to obtain 60 per cent content at a volume of 150,000 units than to obtain 40 per cent content at 10,000 units. There are relatively few parts that can be economically produced for vehicle production in a volume of 10,000 units per year.

The added cost, in terms of higher content requirements, incurred by a manufacturer who increases his production by a single unit beyond one of the present volume categories is, in my view, unduly severe, particularly at such low levels of production. The minimum requirement of 40 per cent appears to be a serious impediment to the entry of automobile manufacturers who might otherwise contemplate assembly in Canada. The requirement that the minimum content requirement be 60 per cent at a volume as low as 20,000 units per annum is unrealistic in view of present technology.

I, therefore, recommend a schedule in which the content requirement at the lower end of the volume scale is less, and in which abrupt changes in the content required are eliminated. I propose that the lowest volume category in the schedule be reduced from 10,000 units to 5,000 units, and that the required content at this level be 30 per cent instead of the present 40 per cent. The graduation in the scale which I have recommended is more in keeping with the demands of modern technology. I have not considered it necessary to make specific provision for higher content requirements, say 80 per cent, for volumes in excess of 300,000 units; beyond that level, additional Canadian content would come as a matter of course through the economies of large-scale production. The schedule only provides for minimum requirements, and, on the basis of my inquiry, it is clear that manufacturers have exceeded the minimum requirements. The content requirements under my plan would, at 20,000 units be 45 per cent; at 50,000 units, 54 per cent; at 100,000 units, 59.5 per cent; at 200,000 units, 64.75 per cent.

7 (f) Content Schedule for Commercial Vehicles

The present content provisions of the Customs Tariff for commercial vehicles is 40 per cent of the factory cost of production if production does not exceed 10,000 units per annum. However, if production exceeds 10,000 units, 50 per cent content must be achieved in order to obtain duty-free entry of certain parts. The reasons for revising this schedule are the same as those given above with respect to passenger automobiles. Indeed, the case for revision of this schedule is somewhat stronger in that many commercial vehicles are custom-built. I have, therefore, proposed that the lowest volume category be reduced from 10,000 units to 5,000 units, and that the required content at this level be 30 per cent. The content requirements for commercial vehicles under my plan would, at 20,000 units be 45 per cent; at 50,000, units, 51 per cent; and at 100,000 units, 55.5 per cent.

A large part of the heavy truck and bus industry obtains engines, particularly diesel engines, from the United Kingdom. At present, these engines enter duty free and count as Commonwealth content. Under my proposal, they would continue to enter free of duty as long as the Canadian content requirement was met. The reduction to 30 per cent as the Canadian content required on the first 5,000 units should enable manufacturers of commercial vehicles to qualify for free entry of these engines.

7 (g) Failure to Meet the Content Requirements

As under the present Customs Tariff, failure to meet the content requirement under my plan in any year would render the manufacturer liable to the payment of duty on all parts and vehicles that would otherwise be dutiable.

I must point out again that the inclusion of British vehicles in the "extended content" plan is dependent on the imposition of a duty under the British Preferential Tariff.



Chapter VII

Conclusion

UNDER the present content requirement of 60 per cent of the factory cost of the Canadian production of passenger automobiles, the "Big Three" are each earning content of 65 per cent or more. This, however, only represents a weighted average of 54 per cent of the sum of the factory cost of passenger vehicles produced in Canada and the value for duty of imported passenger vehicles and parts. Under present provisions, content is related to vehicle production in Canada. A Canadian manufacturer who increases his sales in the Canadian market through imports from associated companies is under no obligation to increase his Canadian content and, if the increase in imported motor vehicles reduces his domestic production, his Canadian content may decline absolutely. In any case, his Canadian content relative to his total market penetration will decline. The "extended content" plan is designed to relate the Canadian content required to the total operations of the individual company in the Canadian market.

On the basis of the individual share of the total Canadian market for passenger automobiles obtained by each of the "Big Three" in 1959, the proposed schedule would require General Motors to achieve approximately 65 per cent Canadian content, Ford somewhat better than 60 per cent and Chrysler about 55 per cent. Studebaker, on the same basis, would require a Canadian content of 38 per cent and American Motors, which sold approximately 10,000 automobiles in Canada in that year, would have been required to achieve a Canadian content of about 40 per cent. To achieve these content objectives, these manufacturers would, collectively, have had to increase their production or purchases in Canada to the extent of some \$60 million. To offset any

Royal Commission on the Automotive Industry

increase in cost which might result from this content obligation, and to permit, nevertheless, a reduction in the price of automobiles, the companies would have saved from \$25 million to \$30 million in duty which would otherwise have been applicable.

If my "extended content" plan had been in operation in 1959, the immediate gain in production would have represented the equivalent of approximately 30,000 passenger automobiles, a 10 per cent increase in domestic production. This added Canadian participation was estimated on the basis of a static market and does not take into account manufacturers who are not now producing in Canada. It did not take into account the expansion in the market resulting from reduced costs and prices which the application of the plan as a whole is expected to achieve. Indeed, the re-arrangement of the content provisions is, to a large extent, designed to provide a favourable environment for the application of those other recommendations which are specifically directed towards a programme of cost and price reduction for the industry.

The proposal which would have the most direct and most immediate effect on price is, of course, that which recommends the removal of the excise tax. Because of the present bases used to calculate the amount of excise tax, the price reduction resulting from this proposal would be relatively larger in the case of the domestically produced passenger automobiles than in the case of imported passenger automobiles. The price of the average Canadian vehicle should be some \$150 lower as a result of the removal of this tax.

The adoption of a "notional" wholesale price as the base for sales tax should have the effect of further reducing the average price of a domestically produced vehicle by some \$10. In the case of a typical motor vehicle imported from Europe, the reduction would be somewhat less since its price, on average, is lower. This reduction would not be sufficient to completely offset the increase in price resulting from the change in the base for assessing sales tax. The change from duty-paid value to dealer price in Canada as the base for sales tax would increase the price of a typical European vehicle by some \$30. Assuming the imposition of a 10 per cent duty under the British Preferential Tariff and a consequent increase in dealer price, motor vehicles imported from the United Kingdom would bear an additional amount of some \$13 in sales tax.

Conclusion

The proposal that duty-free entry be accorded all automotive products if the "extended content" requirements are met will permit further price reductions. The duty-free entry of parts for incorporation in Canadian-produced automobiles should mean a reduction in cost of some \$20 for one of the larger-volume producers and of as much as \$85 for a low-volume producer. The price reduction which would result from the removal of the 17½ per cent duty now applicable to completed vehicles imported from Most-Favoured-Nation countries would, of course, be even larger. While this would improve the competitive position of imported passenger automobiles *vis-à-vis* those produced in Canada, the number of vehicles that could be imported duty free into Canada would be limited by the ability of the manufacturer to increase his overall Canadian content.

A large number of the repair or past model service parts now imported from Most-Favoured-Nation countries are dutiable. If duty-free entry is permitted under the "extended content" plan, price reductions on these parts should result, on average, in a saving to the consumer of 20 per cent. But again it must be noted that the volume of parts imported free of duty would be limited by the ability of the manufacturer to increase his overall Canadian content.

The combined effect of the removal of the excise tax, the use of the "notional" wholesale price as the base for sales tax, and the elimination of the duty on imported original equipment parts would, in my estimation, reduce the price of the average passenger automobile produced in Canada by some \$180 to \$240. In addition to these direct price reductions, other savings, which cannot be estimated with accuracy in advance, should result from the adoption of my total plan. Cost and price reductions should follow from an expansion of the automotive market in Canada, from the manufacturer's ability freely to select for production in Canada those parts where his competitive disadvantage is at a minimum, and from access to wider markets through the application of the "extended content" proposal. The elimination of administrative costs in determining the duty status of imported parts, particularly those in determining the "class or kind" status, is an added feature of my plan.

The problem, as I came to see it during the progress of my inquiry, was how to reconcile the desire of the consumer for low prices and of the industry for increased protection. I believe that the

Royal Commission on the Automotive Industry

solution lies in an effective method of protection which is expansionist rather than restrictive. This solution may be said to maintain protection but reduce the burden of protection. My proposals constitute the next logical step in the direction indicated by the Tariff Board in 1936. The steps which seem to me appropriate in 1961 should be easier to perceive as a result of the experience acquired under the existing Tariff and the development of a stronger industry.

ALL OF WHICH IS RESPECTFULLY SUBMITTED
FOR YOUR EXCELLENCY'S CONSIDERATION.

V. W. B. Baden

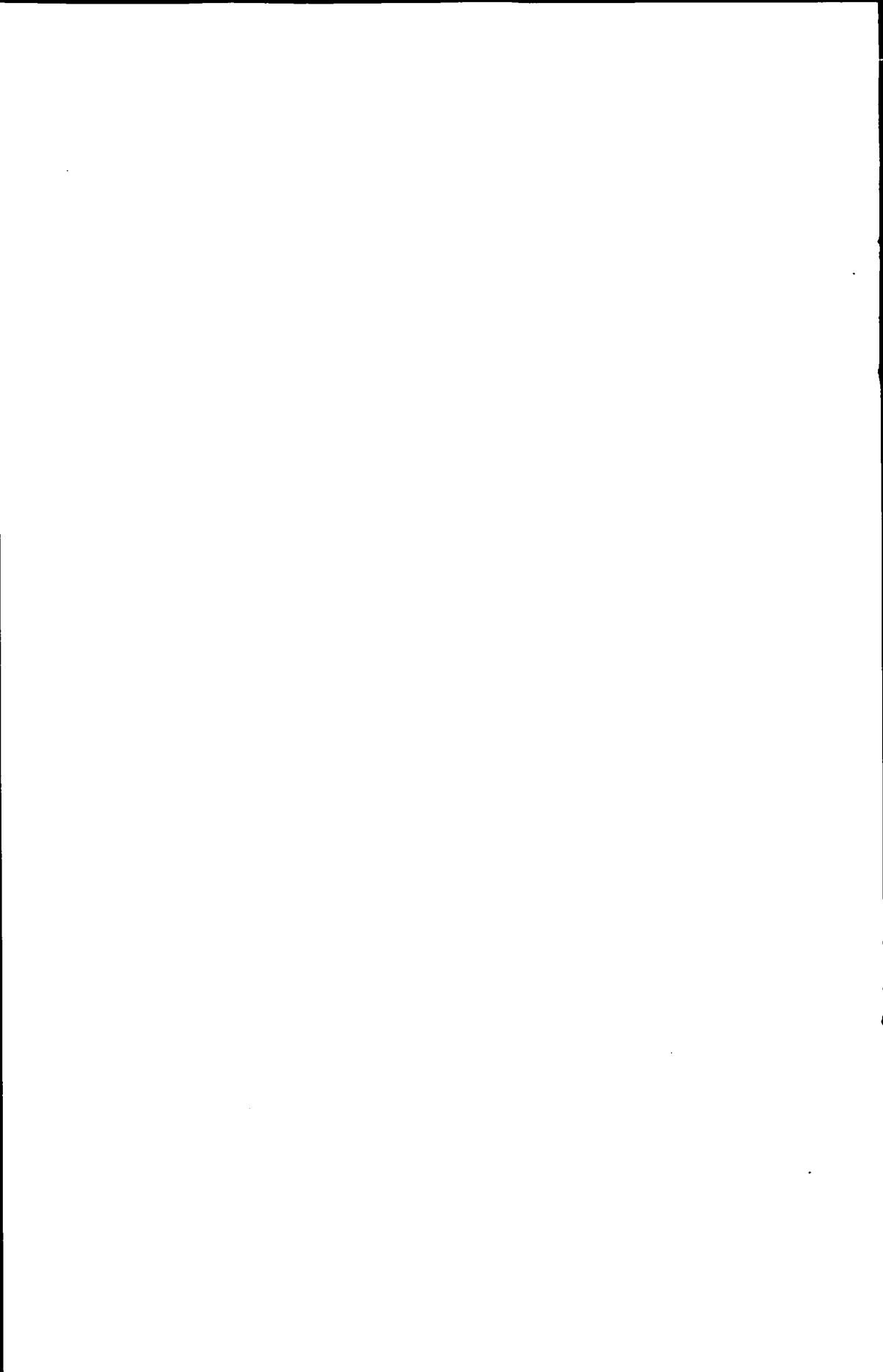
Chairman

J. E. Litch

Secretary

APRIL 14, 1961.

APPENDICES



Appendix I

1. Orders in Council

P.C. 1960-1047

Certified to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by His Excellency the Administrator on the 2nd August, 1960.

The Committee of the Privy Council, on the recommendation of the Prime Minister, advise that Vincent Wheeler Bladen, of Toronto, Ontario, be appointed a Commissioner under Part I of the Inquiries Act to inquire into and report upon the situation of and prospects for the industries in Canada producing motor vehicles and parts therefor, and, without limiting the generality of the foregoing to consider and report upon:

- (a) the present and prospective competitive position of the Canadian automotive industry, in Canadian and export markets, as compared with automotive industries of other countries;
- (b) the relations between the companies producing motor vehicles and parts in Canada and parent, subsidiary or affiliated companies in other countries and the effect of such relations upon production in Canada;
- (c) the special problems and competitive position of the industries in Canada producing parts for motor vehicles, and the effects thereof upon the production of vehicles in Canada;
- (d) the ability of the Canadian industry to produce and distribute economically the various types of motor vehicles demanded or likely to be demanded by the Canadian consumers; and
- (e) measures that could be taken by those in control of the industries producing motor vehicles and parts therefor in Canada, by the labour unions concerned, and by Parliament and the Government, to improve the ability of such industries to provide increased employment in the economic production of vehicles for the Canadian market and export markets.

The Committee further advise:

1. That the Commissioner be authorized to exercise all the powers conferred upon him by section 11 of the Inquiries Act;
2. That the Commissioner adopt such procedure and methods as he may from time to time deem expedient for the proper conduct of the inquiry and sit at such times and at such places as he may decide from time to time;
3. That the Commissioner be authorized to engage the services of such counsel, staff and technical advisers as he may require at rates of remuneration and reimbursement approved by the Treasury Board; and

Royal Commission on the Automotive Industry

4. That the Commissioner report to the Governor in Council with all reasonable despatch, and file with the Dominion Archivist the papers and records of the Commission as soon as reasonably may be after the conclusion of the inquiry.

(Sgd.) R. B. BRYCE,
Clerk of the Privy Council.

P.C. 1960-1186

AT THE GOVERNMENT HOUSE AT OTTAWA

WEDNESDAY, the 24th day of AUGUST, 1960

PRESENT:

HIS EXCELLENCY

THE ADMINISTRATOR IN COUNCIL:

His Excellency the Administrator in Council is pleased hereby to appoint Miss J. Elizabeth Leitch, of the Economics Branch of the Department of Trade and Commerce, Ottawa, to be Secretary of the Commission appointed under the authority of Order in Council P.C. 1960-1047 of 2nd August, 1960, to inquire into and report upon the situation of and prospects for the industries in Canada producing motor vehicles and parts therefor.

Certified to be a true copy.

(Sgd.) R. B. BRYCE,
Clerk of the Privy Council.

2. Commission of Appointment

(Sgd.) GÉRALD FAUTEUX
Deputy Administrator

C A N A D A

ELIZABETH THE SECOND, by the
Grace of God of the United Kingdom,
Canada and Her other Realms and Terri-
tories QUEEN, Head of the Commonwealth,
Defender of the Faith.

(Sgd.) E. A. DRIEDGER,
Deputy Attorney General

TO ALL TO WHOM these Presents shall come or whom the same may
in anywise concern,

GREETING:

WHEREAS pursuant to the provisions of Part I of the Inquiries Act,
chapter 154 of the Revised Statutes of Canada, 1952, His Excellency the Admin-
istrator in Council, by Order P.C. 1960-1047 of the second day of August, in
the year of Our Lord one thousand nine hundred and sixty, a copy of which
is hereto annexed, has authorized the appointment of Our Commissioner therein
and hereinafter named to examine and make recommendations upon

- (a) the present and prospective competitive position of the Canadian auto-
motive industry, in Canadian and export markets, as compared with
automotive industries of other countries;
- (b) the relations between the companies producing motor vehicles and parts
in Canada and parent, subsidiary or affiliated companies in other
countries and the effect of such relations upon production in Canada;
- (c) the special problems and competitive position of the industries in
Canada producing parts for motor vehicles, and the effects thereof
upon the production of vehicles in Canada;
- (d) the ability of the Canadian industry to produce and distribute eco-
nomically the various types of motor vehicles demanded or likely to be
demanded by the Canadian consumers; and
- (e) measures that could be taken by those in control of the industries
producing motor vehicles and parts therefor in Canada, by the labour
unions concerned, and by Parliament and the Government, to improve
the ability of such industries to provide increased employment in the
economic production of vehicles for the Canadian market and export
markets;

and has conferred certain rights, powers and privileges upon Our said Commis-
sioner as will by reference to the said Order more fully appear.

Royal Commission on the Automotive Industry

NOW KNOW YE that, by and with the advice of Our Privy Council for Canada, We do by these Presents nominate, constitute and appoint Vincent Wheeler Bladen, Esquire, of the City of Toronto, in the Province of Ontario, to be Our Commissioner to conduct such inquiry.

TO HAVE, hold, exercise and enjoy the said office, place and trust unto the said Vincent Wheeler Bladen, together with the rights, powers, privileges and emoluments unto the said office, place and trust of right and by law appertaining during Our pleasure.

AND WE DO hereby authorize Our said Commissioner to exercise all the powers conferred upon him by section 11 of the Inquiries Act and be assisted to the fullest extent by government departments and agencies.

AND WE DO hereby authorize Our said Commissioner to adopt such procedure and methods as he may from time to time deem expedient for the proper conduct of the inquiry and sit at such times and at such places as he may decide from time to time.

AND WE DO hereby authorize Our said Commissioner to engage the services of such counsel, staff and technical advisers as he may require at rates of remuneration and reimbursement to be approved by the Treasury Board.

AND WE DO hereby require and direct Our said Commissioner to report to Our Governor in Council with all reasonable despatch, and file with the Dominion Archivist the papers and records of the Commission as soon as reasonably may be after the conclusion of the inquiry.

GIVEN under the Great Seal of Canada.

WITNESS: The Honourable Gérald Fauteux, Puisne Judge of the Supreme Court of Canada and Deputy of the Honourable Patrick Kerwin, Chief Justice of Canada and Administrator of Our Government of Canada.

AT OTTAWA, this twenty-second day of August in the year of Our Lord one thousand nine hundred and sixty and in the ninth year of Our Reign.

BY COMMAND,

(Sgd.) C. STEIN
Under Secretary of State

Appendix II

Staff of the Commission

Secretary: Miss J. E. Leitch,
Department of Trade and Commerce

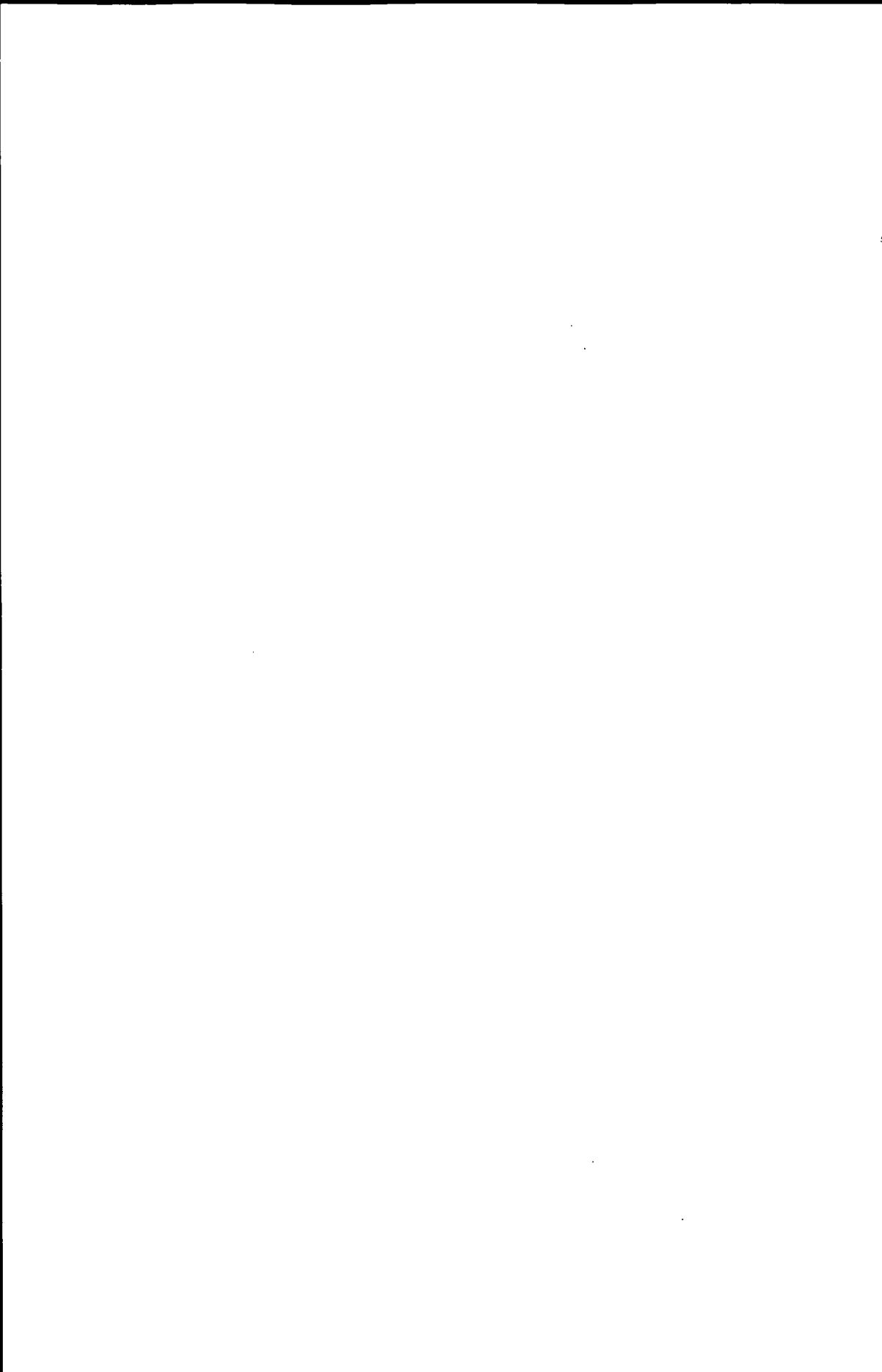
Economists: Mr. C. D. Arthur,
Department of Finance
Mr. Alain Jubinville,
Bank of Canada

Administrative

Assistant: Mr. L. P. Kavanagh,
Department of Trade and Commerce

Technical Staff: Mr. John Brunet
Mrs. D. M. Macdonald

Secretarial Staff: Miss V. Cheeseman
Mrs. L. Haines



Appendix III

Public Briefs Submitted to the Commission

(Asterisk indicates that brief was presented at the public hearings of the Commission.)

<i>Sponsor</i>	<i>Address of Sponsor</i>
*Alasco, Johannes	Montreal, Que.
*American Motors (Canada) Ltd.	Brampton, Ont.
Antognini, Enrico	Toronto, Ont.
Atlas Steels Limited	Welland, Ont.
*Automotive Parts Manufacturers' Association (Canada)	Toronto, Ont.
Borg-Warner Corporation	Chicago, U.S.A.
British Motor Corporation Ltd. (The), Canadian Subsidiaries	Toronto, Ont.
Broome, Ernest J.	Vancouver, B.C.
Canadian Association of Consumers	Ottawa, Ont.
*Canadian Automobile Association	Ottawa, Ont.
Canadian Automobile Chamber of Commerce	Toronto, Ont.
Canadian Automobile Sport Club	Toronto, Ont.
Canadian Automotive Wholesalers' & Manufacturers' Association	Ottawa, Ont.
Canadian Coated Fabrics Industry	Toronto, Ont.
*Canadian Co-operative Wheat Producers Limited	Winnipeg, Man.
*Canadian Federation of Agriculture (The)	Ottawa, Ont.
Canadian Importers & Traders Association Inc.	Toronto, Ont.
Canadian Port Committee (The)	Ottawa, Ont.
Canadian Radiator Mfg. Co. Limited	Toronto, Ont.
Chauncey, Hedley R.	Calgary, Alta.
*Chrysler Corporation of Canada, Limited	Windsor, Ont.
*Council of the Forest Industries of British Columbia... ..	Vancouver, B.C.
Croname (Canada) Ltd.	Waterloo, Que.
*English, H. E.	Ottawa, Ont.
Faichney, Ronald	Hamilton, Ont.
Federation of Automobile Dealer Associations of Canada	Toronto, Ont.
Fisheries Association of British Columbia (The)	Vancouver, B.C.
*Ford Motor Company of Canada, Limited	Toronto, Ont.
Friction Material Manufacturers in Canada	Peterborough, Ont.
*General Motors of Canada, Limited	Oshawa, Ont.
*Greater Windsor Industrial Commission on behalf of Hamilton, Oakville, Oshawa, St. Catharines, Trafalgar and Windsor	Windsor, Ont.
Heeb, Karl	Hamilton, Ont.
Hudson Bay Route Association	Saskatoon, Sask.
Imported Distributors and Dealers in Province of British Columbia (A Committee of)	Vancouver, B.C.

Royal Commission on the Automotive Industry

<i>Sponsor</i>	<i>Address of Sponsor</i>
*Interprovincial Farm Union Council	Saskatoon, Sask.
Jaguar Cars (Canada) Ltd.	Montreal, Que.
Lake Simcoe Industries Limited	Beaverton, Ont.
Mercedes-Benz of Canada Limited	Toronto, Ont.
McLuhan, Marshall	Toronto, Ont.
*National Canadian General Motors Intra-Corporation Council of the U.A.W. (The)	St. Catharines, Ont.
*Ontario, Government of	Toronto, Ont.
Peugeot Distribution Ltée	Montreal, Que.
*Primary Steel Industry of Canada	Hamilton, Ont.
Primary Textiles Institute	Montreal, Que.
Purulator Products (Canada) Limited	Toronto, Ont.
Renault, Régie Nationale des Usines	Paris, France
*Research, Development & Surveys Associates Ltd.	Toronto, Ont.
Rover Motor Company of North America Limited (The)	Toronto, Ont.
*Rubber Association of Canada (The)	Toronto, Ont.
St. Catharines & District Chamber of Commerce (The)	St. Catharines, Ont.
*Saskatchewan, Government of	Regina, Sask.
Shiner, S.	Willowdale, Ont.
Smith's Delivery Vehicles Ltd.	Gateshead-on-Tyne, England
*Society of Motor Manufacturers and Traders Limited (The)	London, England
*Studebaker-Packard of Canada, Limited	Hamilton, Ont.
*Tool & Die Manufacturers' Association of Canada	Toronto, Ont.
Tweedle, Lloyd	Hamilton, Ont.
*United Automobile Workers (UAW-CLC) (The)	Windsor, Ont.
*U.A.W.—Local 444, AFL-CIO	Windsor, Ont.
United Grain Growers Limited	Winnipeg, Man.
*Volkswagen Canada Ltd.	Toronto, Ont.
Wenner, Marvin	Willowdale, Ont.
*Windsor Unemployed Committee	Windsor, Ont.
Wishart, W. D.	Montreal, Que.

Publications Received from Overseas Companies

Simca Internationale	France
Société Anonyme des Automobiles Peugeot	France
The Fiat Company	Italy
The Volvo Group of Companies	Sweden
Motor Industry Research Association	United Kingdom
Rolls-Royce Limited	United Kingdom
Rootes Motors Limited	United Kingdom
The Rover Company Limited	United Kingdom
S. Smith & Sons (England) Limited	United Kingdom
Standard-Triumph International Limited	United Kingdom
Vauxhall Motors Limited	United Kingdom

Appendix IV

Companies Visited by the Commission

CANADA:	American Motors (Canada) Ltd.	Brampton
	Atlas Steels Limited	Welland
	Barber Die Casting Co. Limited	Hamilton
	Bendix-Eclipse of Canada Limited	Windsor
	Canadian Acme Screw & Gear, Limited	Toronto
	Canadian Car Company Limited	Montreal
	Canadian Industries Limited	Montreal
	Canadian Motor Lamp Company, Limited	Windsor
	Canadian Steel Improvement Limited	Toronto
	Chrysler Corporation of Canada, Limited	Windsor
	Dominion Forge Limited	Walkerville
	Dominion Foundries and Steel, Limited	Hamilton
	Ford Motor Company of Canada, Limited	Windsor and Oakville
	Galt Metal Industries Limited	Galt
	General Motors of Canada, Limited...	Oshawa
	General Spring Products Limited	Kitchener
	Hayes Steel Products Limited	Thorold and Merritton
	International Harvester Company of Canada, Limited	Hamilton
	Kelsey Wheel Company, Limited	Windsor
	Kralinator Limited	Preston
	McKinnon Industries, Limited (The)	St. Catharines
	Sehl Engineering Limited	Kitchener
	Standard-Modern Tool Company Ltd.	Toronto
Steel Company of Canada, Limited (The)	Hamilton	
Studebaker-Packard of Canada, Limited	Hamilton	
Thompson Products, Limited	St. Catharines	
UNITED KINGDOM:	British Motor Corporation Ltd. (The)	Birmingham
	Ford Motor Company, Ltd.	Dagenham
	Jaguar Cars Limited	Coventry
	Joseph Lucas Limited	Birmingham

Royal Commission on the Automotive Industry

	Rolls-Royce Limited	London
	Rootes Motors Limited	Coventry
	Rover Company Limited (The)	Birmingham
	S. Smith & Sons (England) Limited....	London
	Standard-Triumph International Ltd...	Coventry
	Vauxhall Motors Limited	Luton
FRANCE:	Peugeot, Société anonyme des auto- mobiles	Paris
	Renault, Régie Nationale des Usines	Paris
	Simca Internationale	Paris
WEST GERMANY:	Volkswagenwerk AG (Engine and Truck Plant)	Hannover
	Volkswagenwerk AG (Passenger Car Plant)	Wolfsburg
SWEDEN:	Volvo, AB	Göteborg
UNITED STATES:	American Motors Corporation	Detroit
	Chrysler Corporation	Detroit
	Ford Motor Company	Dearborn
	Ford Motor Company (Transmission Plant)	Livonia
	General Motors Corporation	Detroit
	General Motors Corporation (Trans- mission Plant)	Ypsilanti
	Studebaker-Packard Corporation	Detroit

Union Offices Visited by the Commission

Local 525, U.A.W., Hamilton
 Local 222, U.A.W., Oshawa
 Local 707, U.A.W., Oakville
 Local 199, U.A.W., St. Catharines
 Locals 195, 200 and 444, U.A.W., Windsor
 Regional Headquarters of the U.A.W., Windsor
 International Headquarters of the U.A.W., Detroit.

Appendix V

1. Excerpts from Schedule "A" to the Customs Tariff Pertaining to Tariff Items 438a, 438b, 438c, 438d, 438e, 438f and 438i.

SCHEDULE "A"				
<i>Tariff Item</i>	<i>Goods Subject to Duty and Free Goods</i>	<i>British Prefer- ential Tariff</i>	<i>Most- Favoured- Nation Tariff</i>	<i>General Tariff</i>
438a	Automobiles and motor vehicles of all kinds, n.o.p.; electric trackless trolley buses; chassis for all the foregoing	Free	17½ p.c.	27½ p.c.
438b	Bearings, clutch release, with or without collar attached; Bearings, graphite; Bearings, steel or bronze backed, with non-ferrous metal lining, parts and materials therefor; Bearings, steering knuckle thrust; Bushings or sleeve bearings of bronze or powdered metal; Bushings, graphited or oil impregnated; Ceramic insulator spark plug cores not further manufactured than burned and glazed, printed or decorated or not, without fittings; Collars, crankshaft thrust; Compressors and parts thereof, air; Commutator copper segments; commutator insulating end rings; Tapered discs of hot-rolled steel, with or without centre hole, for disc wheels; Diaphragms for fuel and vacuum pumps; Distributor rotors and cam assemblies; Door bumper shoes; Electric wiring terminals, sockets, fittings and connectors and parts and combinations thereof, including brackets and fittings permanently attached thereto, but not to include battery terminals; Gaskets of any material except cork or felt, composite or not, parts and materials therefor; Ignition contact points; Keys for shafting; Auxiliary driving control kits, designed for attachment to motor vehicles to facilitate their operation by physically disabled persons, and parts thereof; Laminated composition plastic timing gear blanks;			

Royal Commission on the Automotive Industry

SCHEDULE "A"—Continued

Tariff Item	Goods Subject to Duty and Free Goods	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff
	Lenses of glass for motor vehicle lamps and for light reflectors; Lock washers; Magnetic plugs; Metal frames for convertible soft tops; Permanent mould pistons for brake master cylinders; Piston ring castings in the rough, with or without gates and fins removed; Propeller shaft tubes of steel bonded by rubber; Rails of lock seam section, corners, locks and catches, unplated ventilators and parts thereof, the foregoing being of metal other than aluminum, for the manufacture of window sashes for bus bodies; Shift control, electric, for two speed rear axles; Steel bolts, studs, plugs, rivets or nuts, capped with stainless steel, and parts thereof; Switches, relays, circuit breakers and solenoids and combinations and parts thereof, including starter switch assemblies; Synchronizing cones or blocking rings for transmissions; Vacuum, hydraulic or air control assemblies and parts thereof; Vulcanized fibre in sheets, rods, strips and tubings; Parts for all the foregoing; All of the foregoing for use in the manufacture or repair of goods enumerated in tariff items 410a(iii), 424 and 438a, or for use in the manufacture of parts therefor:			
	1. When of a class or kind not made in Canada	Free	Free	30 p.c.
	2. When of a class or kind made in Canada	Free	17½ p.c.	30 p.c.
438c	Ammeters; Arm rests and wheel housing lining of indurated fibre, pressed to shape; Axle housings, one piece welded, machined or not, including parts welded thereto; Carburetors; Chassis frames and steel shapes for the manufacture thereof; Cigar and cigarette lighters, whether in combination with a cigarette holder or not, including base; Composite frame and floor structure of metal in the rough; Control ventilator gear box; Cylinder lock barrels, with or without sleeves and keys therefor; Dash heat indicators;			

SCHEDULE "A"—Continued

<i>Tariff Item</i>	<i>Goods Subject to Duty and Free Goods</i>	<i>British Prefer- ential Tariff</i>	<i>Most- Favoured- Nation Tariff</i>	<i>General Tariff</i>
	Door opening weatherseal retainers;			
	Engine speed governor units;			
	External ornaments unplated, including name plates, letters and numerals, but not including finish or decorative mouldings;			
	Fluid couplings with or without drive plate assemblies;			
	Gauges, gasoline, oil or air;			
	Grilles not plated, polished or not before assembly, and parts thereof not plated or polished after final forming, casting or piercing, not including added finish or decorative mouldings;			
	Hinges, finished or not, for bodies;			
	Horns;			
	Instrument bezel assemblies; instrument board lamps; instrument panel, glove compartment, luggage compartment, hood compartment and door step lamps and wire assemblies;			
	Instrument board panels of moulded or laminated glass fibres and plastic;			
	Locks, electric ignition, steering gear, transmission, or combinations of such locks;			
	Mouldings of metal, with nails or prongs set in position, lead filled or not;			
	Oil filter parts, namely: perforated filter refill oil board bodies, refill end discs, and roll-seam perforated tubes;			
	Ornaments and identification plates of metal, unplated, not including finished or decorative mouldings;			
	Pipe lines of tubing, rigid, covered or not, with or without fittings, and tubing therefor;			
	Purifiers for gasoline, including brackets and fittings therefor;			
	Radiator shutter assemblies, automatic;			
	Radiator water gauges;			
	Radiator shells not plated nor metal finished in any degree;			
	Reclining seat mechanisms;			
	Shackles, bearing spring;			
	Speedometers;			
	Spring covers of metal and closing strips or shapes therefor;			
	Stampings, body, cowl, fender, front end, hood, instrument board, shields and baffles, of plain or coated metal, in the rough, trimmed or not, whether or not welded in any manner before final forming or piercing, but not metal finished in any degree, including such stampings incorporating pierce or clinch nuts;			
	Steering wheels, rims and spiders therefor;			
	Sun visor blanks of gypsum weatherboard;			
	Swivel seat mechanisms;			

Royal Commission on the Automotive Industry

SCHEDULE "A"—Continued

Tariff Item	Goods Subject to Duty and Free Goods	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff
	Tachometers, with or without tachographs, both electric and gear driven; Thermostatic controls; Throttle, spark, choke and hood lock release assemblies, including buttons therefor; Torque convertors; Auxiliary transmission overdrive units and controls therefor; Universal joint ball assemblies; Windshield and window wipers; Parts of all the foregoing, including brackets, fittings and connections therefor; All of the foregoing when for use in the manufacture or repair of the goods enumerated in tariff items 410a (iii), 424 and 438a, or for use in the manufacture of parts therefor	Free	17½ p.c.	30 p.c.
	(1) If the above articles, when of a class or kind not made in Canada, are for use as original equipment by a manufacturer of passenger automobiles (having a seating capacity for not more than ten persons each) enumerated in tariff item 438a, whose total factory output, during the year in which importation is sought, does not exceed ten thousand such complete passenger automobiles, and if not less than forty per cent of the factory cost of production of such automobiles, not including duties and taxes, is incurred in the British Commonwealth, the rates of duty under this item shall be	Free	Free	25 p.c.
	(2) If the above articles, when of a class or kind not made in Canada, are for use as original equipment by a manufacturer of passenger automobiles (having a seating capacity for not more than ten persons each) enumerated in tariff item 438a, whose total factory output, during the year in which importation is sought, exceeds ten thousand, but does not exceed twenty thousand such complete passenger automobiles, and if not less than fifty per cent of the factory cost of production of such automobiles, not including duties and taxes, is incurred in the British Commonwealth, the rates of duty under this item shall be....	Free	Free	25 p.c.
	(3) If the above articles, when of a class or kind not made in Canada, are for use as original equipment by a manufacturer of passenger automobiles (having a seating capacity for not more than ten persons each) enumerated in tariff item 438a, whose total factory output, during the			

SCHEDULE "A"—Continued

Tariff Item	Goods Subject to Duty and Free Goods	British Prefer- ential Tariff	Most- Favoured- Nation Tariff	General Tariff
	year in which importation is sought, exceeds twenty thousand such complete passenger automobiles, and if not less than sixty per cent of the factory cost of production of such automobiles, not including duties and taxes, is incurred in the British Commonwealth, the rates of duty under this item shall be	Free	Free	25 p.c.
	(4) If the above articles, when of a class or kind not made in Canada, are for use as original equipment by a manufacturer of motor trucks, motor buses, electric trackless trolley buses, fire fighting vehicles, motor ambulances, and hearses, or chassis for same, as enumerated in tariff items 410a (iii), 424 and 438a, whose total factory output of such vehicles during the year in which importation is sought, does not exceed ten thousand such vehicles, and if not less than forty per cent of the factory cost of production of such vehicles, not including duties and taxes, is incurred in the British Commonwealth, the rates of duty under this item shall be	Free	Free	25 p.c.
	(5) If the above articles, when of a class or kind not made in Canada, are for use as original equipment by a manufacturer of motor trucks, motor buses, electric trackless trolley buses, fire fighting vehicles, motor ambulances and hearses, or chassis for same, as enumerated in tariff items 410a (iii), 424 and 438a, whose total factory output of such vehicles during the year in which importation is sought, exceeds ten thousand units, and if not less than fifty per cent of the factory cost of production of such vehicles, not including duties and taxes, is incurred in the British Commonwealth, the rates of duty under this item shall be	Free	Free	25 p.c.
	(6) If the above articles are of a class or kind not made in Canada, and are for use in the repair of the goods enumerated in tariff items 410a (iii), 424 and 438a, or are for use in the manufacture of repair parts therefor, the rates of duty under this item shall be	Free	Free	25 p.c.

The Governor in Council may make such regulations, if any, as are deemed necessary for carrying out the provisions of this item.

Royal Commission on the Automotive Industry

SCHEDULE "A"—Continued

Tariff Item	Goods Subject to Duty and Free Goods	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff
438d	<p>Air cleaners; (effective 1/4/60, D47-421)</p> <p>Axles, front and rear;</p> <p>Bell or clutch housings for vehicles having a gross vehicle weight rating of over 19,500 pounds;</p> <p>Brakes;</p> <p>Brake drums;</p> <p>Cast aluminum road wheels for tube type tires using rim sizes larger than twenty inches by eight inches and for tubeless type tires using rim sizes larger than twenty-two and one-half inches by eight and one-quarter inches;</p> <p>Clutches;</p> <p>Drive shafts;</p> <p>Fuel pumps;</p> <p>Hubs;</p> <p>Hydraulic or fluid couplings;</p> <p>Internal combustion engines over 348 cubic inches in displacement;</p> <p>Linkages and controls for use with clutches, transmission assemblies, power dividers or transfer cases, when the main assemblies are of a class or kind not made in Canada;</p> <p>Magnetos;</p> <p>Power dividers or transfer cases;</p> <p>Rims for pneumatic tires;</p> <p>Spring shrouds, spring seats, and spring anchor plates of metal for vehicles having a gross vehicle weight rating of over 19,500 pounds;</p> <p>Steel road wheels;</p> <p>Steering drag links for vehicles having a gross vehicle weight rating of 20,000 pounds or over;</p> <p>Steering gears;</p> <p>Tandem axle suspensions, not to include springs;</p> <p>Transmission assemblies;</p> <p>Universal joint;</p> <p>Parts of the foregoing;</p> <p>All of the foregoing when of a class or kind not made in Canada, and</p> <p>(1) For the manufacture of motor trucks, motor buses, electric trackless trolley buses, fire fighting vehicles, ambulances, hearses, and the chassis for same</p> <p>(2) For use as original equipment for motor trucks, motor buses, electric trackless trolley buses, fire fighting vehicles, ambulances, hearses, or for chassis for same, by a manufacturer of the goods enumerated in tariff items 410a (iii), 424 and 438a, and during the year in which</p>	Free	17½ p.c.	27½ p.c.

SCHEDULE "A"—Continued

Tariff		British Prefer- ential	Most- Favoured- Nation	General
Item	Goods Subject to Duty and Free Goods	Tariff	Tariff	Tariff
	importation is sought, not less than forty per cent of the factory cost of production of such vehicles and chassis therefor, not including duties and taxes, is incurred in the British Commonwealth, the rates of duty under this item shall be	Free	Free	27½ p.c.
	(3) For use in the repair of motor trucks, motor buses, fire fighting vehicles, ambulances, hearses and electric trackless trolley buses, or for chassis for same or for use in the manufacture of repair parts therefor, the rates of duty under this item shall be....	Free	Free	27½ p.c.
	The Governor in Council may make such regulations, if any, as are deemed necessary for carrying out the provisions of this item.			
438e	Internal combustion engines of 348 cubic inches and under in displacement; Parts of the foregoing; All of the foregoing when of a class or kind not made in Canada, and (1) For the manufacture of motor trucks, motor buses, electric trackless trolley buses, fire fighting vehicles, ambulances, hearses, and the chassis for same	Free	17½ p.c.	27½ p.c.
	(2) For use as original equipment for motor trucks, motor buses, electric trackless trolley buses, fire fighting vehicles, ambulances, hearses, or for chassis for same, by a manufacturer of the goods enumerated in tariff items 410a(iii), 424 and 438a, and during the year in which importation is sought, not less than forty per cent of the factory cost of production of such vehicles and chassis therefor, not including duties and taxes, is incurred in the British Commonwealth, the rates of duty under this item shall be	Free	7½ p.c.	27½ p.c.
	(3) For use in the repair of motor trucks, motor buses, fire fighting vehicles, ambulances, hearses and electric trackless trolley buses, or for chassis for same or for use in the manufacture of repair parts therefor, the rates of duty under this item shall be	Free	7½ p.c.	27½ p.c.
	The Governor in Council may make such regulations, if any, as are deemed necessary for carrying out the provisions of this item.			
438f	Parts, n.o.p., electro-plated or not, whether finished or not, for automobiles, motor			

Royal Commission on the Automotive Industry

SCHEDULE "A"—Concluded

Tariff Item	Goods Subject to Duty and Free Goods	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff
	vehicles, electric trackless trolley buses, fire fighting vehicles, ambulances and hearses, or chassis enumerated in tariff items 424 and 438a, including engines, but not including ball or roller bearings, wireless receiving sets, die castings of zinc, electric storage batteries, parts of wood, tires and tubes or parts of which the component material of chief value is rubber	Free	25 p.c.	35 p.c.
438i	Body bottom cross members and steel shapes for the manufacture thereof; Bumpers, front and rear, including spring steel bumper plates; Casket tables or platforms for hearses; Destination and route sign assemblies, illuminated or not; Direction signals, illuminated or not; Door and step mechanism, hand, vacuum or air operated; Door locks and catches; Electric switches, buzzers, bells, push buttons, fuse assemblies; Forward drive control conversion assemblies; Lamps of all kinds, illuminating and indicating, including sockets, flanges, terminals, glassware, lenses and gaskets therefor, assembled or not, but not to include lamp bulbs, sealed beam units, and electric head lamps; Metal stampings and assemblies thereof, whether or not coated with oil, primer or sound deadening compound; Rubber fenders; Seat operating mechanisms; Ventilators, including motor driven fan type, and grilles; Window operating mechanisms; Parts of all the foregoing; All of the foregoing when imported to be used only in the manufacture or repair of motor truck bodies, motor bus bodies, electric trackless trolley bus bodies, fire fighting vehicles, ambulances and hearses....	Free	Free	20 p.c.

2. Excerpts from the Customs Tariff Regulations
Pertaining to Item 438c of Schedule "A" to
the Customs Tariff, Effective April 14, 1960.

By Order in Council P.C. 1960-418

4. (1) In these regulations, "factory cost of production incurred in the British Commonwealth" means the aggregate of

- (a) the cost as calculated on value for duty basis of raw or semi-finished materials, parts or assemblies and the usual coverings thereof, of Commonwealth origin, imported by a manufacturer either directly or indirectly, and the freight, cartage, insurance and other transit charges paid thereon;
- (b) the freight, cartage, insurance and other transit charges incurred in transporting goods not manufactured or produced in the British Commonwealth from a frontier port in Canada to the factory of the manufacturer or his supplier in Canada;
- (c) the wages paid in manufacturing the goods produced by the manufacturer;
- (d) the manufacturer's overhead expenses for his factory;
- (e) administrative and general expenses incurred within the British Commonwealth and which may be fairly allocated to the manufacturer's operations in Canada; and
- (f) engineering or experimental expenses and tool and die charges incurred within the Commonwealth.

(2) For the purposes of subsection (1), a manufacturer's overhead expenses for his factory shall include the cost of

- (a) light, heat, power and water used in his plant;
- (b) workmen's compensation;
- (c) fire insurance premiums;
- (d) taxes on his land and buildings in Canada;
- (e) rent for factory premises;
- (f) repairs to buildings, machinery and equipment;
- (g) interest not exceeding five per cent per annum on capital outlay for land and buildings and the depreciated value of machinery and equipment;
- (h) depreciation not exceeding ten per cent per annum on machinery and equipment of a permanent character but not including tools, dies, jigs and other similar non-permanent articles;
- (i) indirect and non-productive labour;

Royal Commission on the Automotive Industry

(j) manufacturing expense materials; and

(k) miscellaneous factory expenses,

but shall not include the cost of insurance, rent, taxes, repairs, interest and other expenses described above on buildings for housing or storing vehicles after production and final inspection, or idle buildings, plants and equipment.

(3) Customs duties and excise taxes, royalties, warranty, selling and advertising expenses and charges incurred subsequent to the manufacture of a vehicle shall not be included in calculating the factory cost of production of goods for which entry is claimed under these regulations.

TABLE I
PRODUCTION, EXPORTS AND IMPORTS OF MOTOR VEHICLES
CANADA

	Production ^(a)			Exports ^(a)			Net Imports (-) or Exports (+)
	Passenger Automobiles	Commercial Vehicles Trucks	Buses	Passenger Automobiles	Commercial Vehicles	Total	
	(Number of Vehicles)						
1925	135,573	26,397		161,970	58,005	74,151	14,632
1926	166,887	37,840		204,727	53,628	74,324	28,544
1927	146,421	32,633		179,054	39,900	57,414	36,630
1928	197,848	44,206		242,054	55,732	79,388	47,408
1929	203,307	59,318		262,625	64,863	101,711	44,724
1930	121,337	32,035		153,372	28,841	44,553	23,233
1931	65,072	17,487		82,559	9,282	13,813	8,738
1932	50,694	10,095		60,789	9,800	12,534	1,449
1933	53,849	12,003		65,852	15,828	20,403	1,781
1934	92,647	24,205		116,852	31,274	43,368	2,926
1935	135,562	37,315		172,877	47,592	64,330	4,125
1936	128,369	33,790		162,159	42,351	55,570	9,974
1937	153,046	54,417		207,463	43,801	65,867	20,250
1938	123,761	42,325		166,086	40,386	57,768	15,306
1946	91,871	79,210	447	171,528	23,451	68,111	22,242
1947	167,257	89,856	902	258,015	41,550	83,765	42,863
1948	166,819	96,147	794	263,760	27,277	48,178	20,612
1949	193,556	98,303	725	292,584	17,469	29,616	38,697
1950	284,076	105,258	768	390,102	24,085	34,334	88,528
1951	282,714	132,021	685	415,420	37,181	60,489	48,334
1952	283,534	149,611	565	433,710	41,666	38,268	38,993
1953	360,385	119,937	637	480,959	40,448	60,250	58,475
1954	287,191	69,454	438	357,083	19,739	29,965	43,482
1955	375,028	78,012	557	453,597	25,722	35,105	22,844
1956	374,312	93,157	395	467,864	24,503	32,961	89,232
1957	340,016	71,424	444	411,884	21,600	28,116	80,011
1958	298,349	60,857	571	359,777	17,672	23,192	113,377
1959	300,616	66,974	467	368,057	14,775	18,787	165,564
1960	326,496	68,958	159	395,613	18,774	23,142	180,029

Source: Dominion Bureau of Statistics

^(a) Factory shipments, beginning in 1952.^(b) From 1953, includes sets of partial chassis counted as completed units in factory shipments.

Royal Commission on the Automotive Industry

TABLE II
**PRODUCTION OF MOTOR VEHICLES, BY MANUFACTURERS
 CANADA**

	<i>Chrysler</i>		<i>Ford</i>		<i>General Motors</i>		<i>Others</i>	
	<i>Thousands of Vehicles</i>	<i>% of Total</i>	<i>Thousands of Vehicles</i>	<i>% of Total</i>	<i>Thousands of Vehicles</i>	<i>% of Total</i>	<i>Thousands of Vehicles</i>	<i>% of Total</i>
<i>Passenger automobiles</i>								
1947	43.5	26	63.4	38	58.8	35	1.5	1
1948	45.0	27	54.6	33	65.2	39	2.0	1
1949	46.6	24	72.9	38	62.6	32	11.5	6
1950	55.1	19	94.2	33	117.9	42	16.9	6
1951	52.9	19	79.4	28	133.0	47	17.4	6
1952	51.8	18	82.9	29	136.0	48	12.5	4
1953	61.8	17	124.2	34	162.9	45	16.1	4
1954	51.1	18	102.5	36	122.6	43	7.7	3
1955	97.4	26	137.6	37	128.6	34	10.9	3
1956	92.1	25	119.6	32	148.2	40	14.8	4
1957	69.4	20	109.9	32	153.4	45	7.7	2
1958	44.1	15	89.3	30	158.7	53	5.3	2
1959	42.6	14	99.7	33	150.2	50	8.3	3
1960	50.4	15	94.2	29	175.1	54	5.7	2
<i>Commercial vehicles</i>								
1947	17.4	19	37.8	42	13.8	15	21.8	24
1948	16.0	17	42.5	44	28.5	29	10.0	10
1949	17.7	18	39.3	40	29.7	30	12.4	12
1950	16.9	16	34.9	33	42.3	40	12.0	11
1951	20.9	16	30.5	23	54.4	41	26.9	20
1952	20.6	14	49.3	33	64.3	43	16.7	11
1953	17.3	14	31.4	26	57.1	47	15.3	13
1954	9.1	13	20.0	29	30.9	45	8.1	12
1955	11.1	14	28.1	36	29.8	38	8.6	11
1956	12.8	13	29.3	30	40.6	42	14.0	14
1957	7.4	10	24.3	33	28.6	39	13.0	18
1958	6.3	11	16.2	27	27.0	46	9.5	16
1959	6.1	9	18.3	27	29.4	44	13.7	20
1960	6.0	9	19.2	27	34.3	49	10.6	15

SOURCE: Canadian Automobile Chamber of Commerce, *Facts and Figures of the Automotive Industry*.

TABLE III
MOTOR VEHICLES PRODUCED IN CANADA AND IMPORTED FOR
SALE IN CANADA IN 1959, BY MANUFACTURERS AND
BY COUNTRY OF ORIGIN

	<i>Passenger Automobiles</i>	<i>Commercial Vehicles</i>
	(Number of Vehicles)	
CHRYSLER		
Produced in Canada	42,618	6,081
Imported from the United States	1,433	258
Imported from France	6,713	16
Total production and imports	50,764	6,355
FORD		
Produced in Canada	99,722	18,328
Imported from the United States	2,076	110
Imported from the United Kingdom	13,247	.....
Imported from West Germany	2,023	2
Total production and imports	117,068	18,440
GENERAL MOTORS		
Produced in Canada	150,189	29,394
Imported from the United States	11,233	586
Imported from the United Kingdom	30,171	1,426
Total production and imports	191,593	31,284
STUDEBAKER-PACKARD		
Produced in Canada	8,320	.....
Imported from the United States	84	73
Total production and imports	8,404	73
INTERNATIONAL HARVESTER		
Produced in Canada		13,714
Imported from the United States (Approx.)....		200
Total production and imports		13,914
OTHER IMPORTS		
From the United States	9,707*	3,416*
From the United Kingdom	29,579*	1,731*
From West Germany	34,037*	3,665*
From France	9,672*	96*
From Italy	2,274	51
From Other Countries	1,683	2
Total Canadian Production, Plus Imports	396,031	79,027

SOURCES: Dominion Bureau of Statistics, Canadian Automobile Chamber of Commerce, public briefs and data submitted to the Royal Commission on the Automotive Industry.

* Residual.

Royal Commission on the Automotive Industry

TABLE IV
IMPORTS OF MOTOR VEHICLES INTO CANADA,⁽¹⁾
BY COUNTRY OF ORIGIN

	<i>United States</i>	<i>United Kingdom</i>	<i>West Germany</i>	<i>France</i>	<i>Italy</i>	<i>Other Countries</i>	<i>Total</i>
(Number of Vehicles)							
1946	22,256	731	.....	.....	.....	.....	22,987
1947	42,046	2,298	.....	5	6	.....	44,355
1948	5,955	16,224	.....	.....	103	.....	22,282
1949	5,239	33,496	.....	242	217	56	39,250
1950	4,770	82,839	.....	126	19	774	88,528
1951	17,480	30,785	.....	45	.....	24	48,334
1952	17,049	21,805	133	1	.....	5	38,993
1953	27,625	28,996	1,844	8	1	1	58,475
1954	22,050	17,801	3,462	16	1	152	43,482
1955	35,099	15,466	7,353	7	7	17	57,949
1956	49,371	21,239	18,566	25	4	27	89,232
1957	23,695	29,638	26,442	180	5	51	80,011
1958	22,099	48,992	32,465	7,343	1,721	757	113,377
1959	29,176	76,154	39,727	16,497	2,325	1,685	165,564
1960	31,607	95,955	39,639	9,692	1,112	2,024	180,029

SOURCE: Dominion Bureau of Statistics.

⁽¹⁾ Including imports into Newfoundland for 1946, 1947, 1948 and the first quarter of 1949.

TABLE V
**PRODUCTION OF MOTOR VEHICLES
 IN THE MAIN MOTOR VEHICLE PRODUCING COUNTRIES**

	<i>United States</i>	<i>United Kingdom</i>	<i>Germany⁽¹⁾</i>	<i>France</i>	<i>Italy</i>
	(Thousands of Vehicles)				
1925	4,265.8	167.0	.....	177.0	.....
1926	4,300.9	198.0	.....	191.0	.....
1927	3,401.3	211.8	122.3	223.0	54.3
1928	4,358.8	211.9	147.4	253.0	57.6
1929	5,337.1	238.8	156.0	230.0	55.1
1930	3,362.8	236.5	71.1	201.0	46.4
1931	2,380.4	226.3	65.8	163.0	28.4
1932	1,331.9	232.7	52.1	189.0	29.6
1933	1,889.8	286.3	95.7	181.0	41.7
1934	2,737.1	342.5	174.6	165.0	45.4
1935	3,971.2	416.9	242.9	204.0	50.5
1936	4,461.5	481.5	271.0	201.0	53.1
1937	4,820.2	493.3	328.3	227.2	77.7
1938	2,508.4	444.9	342.2	182.0	70.8
1946	3,089.6	365.3	23.9	96.1	29.0
1947	4,797.6	441.7	23.3	137.4	43.7
1948	5,285.5	508.1	61.3	198.4	60.0
1949	6,253.7	628.7	163.6	285.6	86.1
1950	8,003.1	783.7	306.1	357.6	127.8
1951	6,765.3	733.9	374.2	445.7	145.6
1952	5,539.0	689.7	428.4	499.0	138.4
1953	7,323.2	834.8	490.6	497.3	174.3
1954	6,601.1	1,037.9	680.6	600.0	216.7
1955	9,169.3	1,237.1	908.7	725.1	268.8
1956	6,920.6	1,004.5	1,075.6	827.1	315.8
1957	7,220.5	1,149.1	1,212.2	928.0	351.8
1958	5,135.1	1,364.4	1,495.3	1,127.5	403.5
1959	6,728.6	1,560.4	1,718.6	1,283.2	500.8
1960p	8,059.0	1,778.0	2,055.1	1,369.3	690.0

SOURCE: Society of Motor Manufacturers and Traders, *The Motor Industry in Great Britain 1960*.

⁽¹⁾ West Germany only, beginning in 1946.

p: Provisional. Data for 1960 were obtained from various unofficial sources and are subject to revision.

Royal Commission on the Automotive Industry

TABLE VI
**EXPORTS⁽¹⁾ OF MOTOR VEHICLES
 FROM THE MAIN MOTOR VEHICLE EXPORTING COUNTRIES**

	<i>United States</i>	<i>United Kingdom</i>	<i>Germany⁽²⁾</i>	<i>France</i>	<i>Italy</i>
	(Thousands of Vehicles)				
1925	302.9	29.9	1.8	63.8	29.1
1926	305.4	33.3	2.2	59.8	34.2
1927	384.2	36.4	4.1	52.0	33.3
1928	507.1	32.8	8.0	44.1	28.3
1929	537.2	42.3	7.8	49.0	23.7
1930	237.6	30.0	5.3	31.2	20.7
1931	128.4	24.4	11.2	26.3	11.9
1932	65.5	40.3	11.0	19.2	6.6
1933	107.0	51.9	13.4	25.5	7.5
1934	236.3	57.9	13.2	25.0	9.5
1935	271.4	68.5	23.6	18.7	14.9
1936	285.8	82.4	35.5	21.3	20.5
1937	395.2	99.2	68.5	25.1	33.7
1938	277.2	83.8	78.1	23.8	20.2
1946	285.2	129.5	.....	32.8	2.9
1947	534.2	199.5	.....	83.8	10.6
1948	422.7	298.3	6.8	73.2	14.2
1949	274.3	350.0	15.3	102.3	17.5
1950	251.7	541.9	83.5	117.3	21.9
1951	433.7	505.0	120.0	125.3	32.3
1952	296.5	437.1	136.9	107.1	26.5
1953	288.9	412.1	177.5	105.0	31.5
1954	358.0	490.8	298.2	131.6	44.1
1955	388.8	528.6	404.0	162.7	74.6
1956	372.4	462.1	484.6	176.6	87.0
1957	336.0	547.3	584.3	251.9	119.1
1958	269.5	596.2	733.4	359.3	169.3
1959	267.7	696.9	871.0	561.7	221.2
1960p	325.0	710.0	983.0	555.0	205.0

SOURCE: Society of Motor Manufacturers and Traders, *The Motor Industry in Great Britain 1960*.

⁽¹⁾ Including exports of assembled or unassembled units, as well as chassis.

⁽²⁾ West Germany only, beginning in 1946.

p: Provisional. Data for 1960 were obtained from various unofficial sources and are subject to revision.

TABLE VII
 VALUE FOR DUTY AND DUTY COLLECTED—
 AUTOMOTIVE PRODUCTS

A—ALL AUTOMOTIVE PARTS

	Value for duty of imports ⁽¹⁾ from:			Total Value for Duty	Duty collected on imports ⁽¹⁾ from:			Total Duty Collected
	United States	United Kingdom	All Other Countries		United States	United Kingdom	All Other Countries	
	(Millions of Dollars)							
1950	177.7	5.7	.2	183.6	15.5	.....	.1	15.6
1951	227.9	8.2	.6	236.7	27.8	.1	.1	28.0
1952	218.1	4.1	.5	222.7	25.2	.....	.2	25.4
1953	250.0	5.0	.9	255.9	28.2	.....	.2	28.4
1954	202.0	3.7	.4	206.1	21.7	.....	.2	21.9
1955	282.7	4.2	1.3	288.2	30.5	.....	.3	30.8
1956	323.3	5.3	4.5	333.1	33.7	.1	.5	34.3
1957	287.9	6.1	3.1	297.1	28.3	.1	.6	29.0
1958	263.9	6.8	3.7	274.4	23.9	.1	.7	24.7
1959	316.7	9.9	5.2	331.8	28.5	.2	1.0	29.7
1960	321.7	9.9	7.1	338.7	27.1	.1	1.4	28.6

B—ALL MOTOR VEHICLES

	Value for duty of imports from:			Total Value for Duty	Duty collected on imports from:			Total Duty Collected
	United States	United Kingdom	All Other Countries		United States	United Kingdom	All Other Countries	
	(Millions of Dollars)							
1950	15.0	73.3	.6	89.0	2.6	.....	.1	2.7
1951	45.1	29.1	.....	74.2	7.9	.....	.....	7.9
1952	45.3	20.8	.2	66.3	7.9	.....	.....	8.0
1953	68.0	29.9	1.8	99.8	11.9	.....	.3	12.2
1954	57.6	19.3	3.0	79.9	10.1	.....	.5	10.6
1955	94.9	16.3	6.2	117.3	16.6	.....	1.1	17.7
1956	136.2	24.3	15.9	176.4	23.8	.....	2.8	26.6
1957	84.4	32.6	21.5	138.5	14.8	.....	3.8	18.5
1958	74.4	56.2	37.7	168.3	13.0	.....	6.6	19.6
1959	89.0	88.5	56.0	233.5	15.5	.....	9.8	25.4
1960	90.3	108.6	48.5	247.5	15.7	.....	8.6	24.3

SOURCE: Dominion Bureau of Statistics.

⁽¹⁾ Including chassis.

TABLE VIII
ILLUSTRATION OF THE EFFECT ON CANADIAN CONTENT REQUIREMENTS OF THE EXTENDED CONTENT PROPOSALS—PASSENGER AUTOMOBILES

	Factory value or value for duty as per 1959 data supplied by four Canadian manufacturers of passenger automobiles ⁽¹⁾	Duty Assessed ⁽²⁾
(Millions of Dollars)		
I. EXTENDED CONTENT BASE		
(a) Factory Value of Passenger Automobiles Produced in Canada		
1. Canadian materials and parts obtained from domestic suppliers.....	212	
2. "On Site" production costs, including labour, overhead, etc.....	161	
3. Materials and parts obtained from non-Canadian suppliers.....	199	7.9
Total.....	572	
(b) Value for Duty of Imported Passenger Cars		
1. Imported from the United States.....	40*	6.8
2. Imported from all other countries.....	67*	7.2**
Total.....	107	14.0
(c) Value for Duty of Past Model Service Parts		
1. Imported from the United States.....	31*	4.2
2. Imported from all other countries.....	2*	.2**
Total.....	33	4.4
Total Factory Value of Canadian Automobile Production and Value for Duty of Imported Passenger Cars and Past Model Service Parts.....		
	712	26.3
Canadian Content Required as per Proposed Schedule¹.....		
		439

II. CANADIAN CONTENT EARNED

(a) Vehicle Production Costs Incurred on Canadian Materials, Labour, etc., as per I. (a) 1 and 2 above.....	373
(b) Past Model Service Parts	
1. Produced by Canadian vehicle manufacturers.....	6†
2. Purchased from Canadian suppliers.....	19†
Total.....	25†
(c) Increase in Canadian Automotive Production Required to Qualify for Duty-Free Entry of Vehicles and Parts under the "Extended Content" Plan.....	41
Total Canadian Content Achieved under the "Extended Content" Plan.....	<u>439</u>

(1) On the basis of production and imports shown in Table III, content requirements would be as follows: Chrysler, 54.17%; Ford, 61.03%; General Motors, 64.52%; Studebaker-Packard, 38.10%. (See schedule of content requirements on p. 59.)

(2) Assuming the fulfillment of content requirements under an extended content plan, no duty would be applicable.

* Allowing for the increase in valuation of imported automobiles and past model service parts which came into effect on Dec. 1, 1960, the total value for duty of these items would be larger by some \$17 million. Under these conditions, the Canadian content required would therefore be about \$10 million more than it might have been under the valuation-for-duty provisions in existence in 1959.

† Including an assumed duty of 10% on vehicles and parts imported under the British Preferential Tariff.

** These figures represent 65% of the actual value of past model service parts produced in Canada; it is assumed that the Canadian content of these parts follows the Canadian content pattern of completed vehicles.

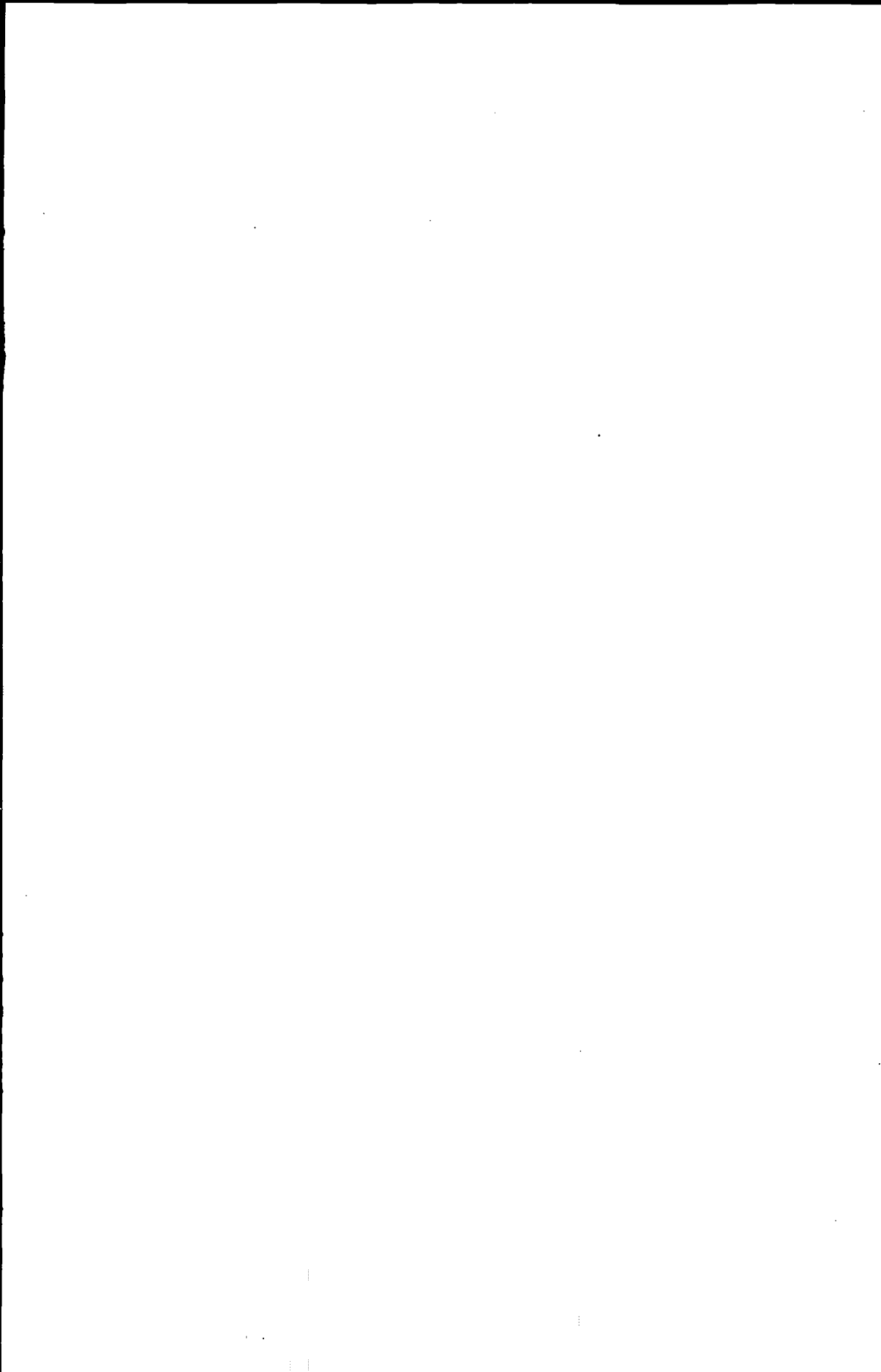
Royal Commission on the Automotive Industry

TABLE IX

EXCISE TAX COLLECTED ON PASSENGER AUTOMOBILES IN CANADA

	<i>Rate of Excise Tax</i>	<i>Amount of Excise Tax Collected on:</i>		
		<i>Automobiles Produced in Canada</i>	<i>Imported Automobiles</i>	<i>All Automobiles</i>
	(Percentage)	(Millions of Dollars)		
1955	15 (to Apr. 5) } 10 (from Apr. 6) }	68.9	9.9	78.7
1956	10	60.7	13.8	74.5
1957	10 (to Dec. 6) } 7½ (from Dec. 7) }	68.0	10.9	78.9
1958	7½	45.9	11.1	57.0
1959	7½	51.7	15.6	67.3
1960	7½	46.8	17.2	64.0

SOURCE: Department of National Revenue.





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