



Key Economic Events

1965 - Canada–United States Auto Pact

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1965 – Canada–United States Auto Pact

Canada's car manufacturing industry started in 1904 with Henry Ford's plant in Windsor, Ontario. Throughout the following decades, the North American **automobile** industry remained highly segregated. American branch plants were established in Canada by Chrysler, Ford and General Motors, but most car manufacturing occurred in the United States. By the early 1960s, Canada had a massive auto trade deficit with the United States. On January 16, 1965, the Canada–United States Automotive Agreement, commonly referred to as the Auto Pact, was signed by Canada's Prime Minister and the President of the United States. This trade agreement transformed the North American car manufacturing landscape. It became the model for 'managed trade,' setting a precedent for broader free trade between Canada and the United States.

The Auto Pact eliminated trade tariffs between the two countries and created a single North American manufacturing market. Tariffs between the two countries were eliminated on cars, trucks, buses, tires and automotive parts. The single market allowed Chrysler, Ford and General Motors to rationalize production in Canada and the United States and form a single integrated production and marketing system. Larger, more efficient car plants were built to serve both countries, which led to an expanding

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automotive industry in Canada. Higher levels of integration and better access to the world's largest auto market enabled Canada to develop an internationally competitive auto industry.

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The Auto Pact also contained safeguards for Canada to ensure that major North American car manufacturers continued their investment and production in this country. The agreement stated that for every car sold in Canada, one had to be built in Canada. Each vehicle built in Canada also had to have at least 60 percent Canadian content in both parts and labour. Tariffs were applied if these conditions were not met.

In 1964, 7% of **vehicles** made in Canada were sent to the United States. By 1968, 60% of Canadian vehicles made were shipped to the United States, and 40% of the vehicles purchased in Canada were made in the United States. In 1970, Canada registered a small auto trade surplus with the United States for the first time.

The agreement has been of great benefit to Canadian workers and consumers. Market efficiencies lowered prices and provided a larger selection of cars. Higher production created thousands of **jobs** in the automobile industry. Between 1965 and 2002, the number of people employed in the automobile industry rose from 75,000 to 491,000. The number of vehicles manufactured in Canada over this same period jumped from 846,000 to over 2.6 million. The value of vehicle shipments from Canada in 2002 was \$66 billion and parts shipments, \$33 billion. The Canadian automotive industry accounted for 12% of manufacturing GDP in 2002.

The Auto Pact has not remained static over time. During Canada-U.S. free trade negotiations in the mid-1980s, features of the Auto Pact were changed. Non-U.S. automakers lost the right to import parts and vehicles duty free into Canada unless they met the production conditions of the Pact. These manufacturers did not make enough cars in Canada to qualify for the tax break. Companies such as Honda and Toyota had to pay auto tariffs, even though some cars were built in Canada. Meanwhile, American automakers continued to operate tariff-free, even though they now imported cars and parts manufactured overseas.

While negotiating the North American Free

Trade Agreement (NAFTA) with the United States and Mexico in the early 1990s, the Auto Pact was again modified. Canada wanted to protect its Auto Pact safeguards but at the same time gain access to the Mexican market. Mexico's auto industry had been essentially closed to foreign competition, although Mexico shipped automotive products produced by American branch plants to Canada duty free. In the final NAFTA deal, Canada retained its production and investment safeguards and the Mexican market was opened to North American competition over a 10-year transition period.

By 1996, discussions had begun about tariffs on vehicles imported by non-Auto Pact members. Non-Auto Pact members viewed these tariffs as creating a two-tiered policy. As a result, a complaint was launched with the World Trade Organization (WTO) by the European Union and Japan. The challenge involved a section of the Pact allowing DaimlerChrysler, Ford and General Motors to import vehicles into Canada from anywhere in the world duty free. Based on a decision by the WTO dispute panel in 2001, the Auto Pact was abolished as the panel ruled that parts of the Canada–United States Auto Pact broke global trade rules by favoring some countries over others. This ended the 35-year-old centrepiece of Canada's automotive policy.

With the demise of the Auto Pact, there was much debate as to the direction the Canadian auto industry would take. The country's high-tech automobile manufacturing industry was built in large part on the success of the Auto Pact agreement. A continuing focus on innovation, new technology, cost reduction, a skilled workforce and a stable business environment are keys to the future of the Canadian automotive industry.

Links

Canada's Automotive Industry 2003

Source: Industry Canada

<http://strategis.ic.gc.ca/epic/internet/inauto-auto.nsf/en/am01613e.html>

End of an Era? International Challenges to the Auto Pact

Source: The Conference Board of Canada

<http://www.conferenceboard.ca/documents.asp?>

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Updated: 2007-05-04



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