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UNITED STATES - IMPORTS OF AUTOMOTIVE PRODUCTS

Request for Renewal of Waiver

The following communication has been received from the Permanent Mission of the United States.

By the Decision of the CONTRACTING PARTIES to the GATT 1947 of 20 December 1965 (BISD 14S/37), the United States was granted a waiver of its obligations under paragraph 1 of Article 1 of the GATT 1947, for the provision of duty-free treatment for imports of eligible automotive products originating in Canada. This waiver, which covered duties applied to automotive products traded between the two countries, was granted for an indefinite period of time. As provided for in paragraph 2 of the Understanding in Respect of Waivers of Obligations under the General Agreement on Tariffs and Trade 1994, this waiver will expire on 31 December 1996, two years after entry into force of the WTO Agreement, unless it is extended.

The United States requests that Members extend the waiver for the period ending on 1 January 1998 to enable the United States to continue to provide duty-free access for imports of eligible automotive products from Canada, consistent with its international obligations, until remaining duties on these products are eliminated as part of the U.S. - Canada Free Trade Agreement (CFTA), the relevant provisions of which were maintained in force in Appendix 300-A.1 of the North American Free Trade Agreement. The product coverage of this waiver request is narrower than the coverage of the 1965 waiver as duties on motor vehicles and certain parts have already been eliminated as part of the CFTA.

Renewal of the waiver of paragraph 1 of Article I of the GATT 1994 is necessary so that the United States can continue to provide such duty-free treatment consistent with its international obligations. This request is made in accordance with the Guiding Principles to be followed in considering applications for waivers adopted on 1 November 1956; the Understanding in Respect of Waivers of Obligations under the General Agreement on Tariffs and Trade 1994; and paragraphs 3 and 4 of Article IX of the Marrakesh Agreement Establishing the World Trade Organization. The policy objectives of the Auto Agreement and the exceptional circumstances justifying a waiver are described below.

Discussion

The United States-Canada Automotive Products Trade Agreement ("Agreement"), signed in 1965, was designed to address a problem unique to the automotive industry of Canada and the United States. Motor vehicle manufacturing facilities on both sides of the border produced identical items, using fully interchangeable components. The Canadian auto industry, consisting primarily of subsidiaries of U.S. motor vehicle manufacturers and characterized by the presence of few independent parts

producers, was organized to serve a very small domestic market. The location of the industry in the two countries, was, moreover, characterized by geographic proximity. Yet, the two industries were arbitrarily and uneconomically divided by tariffs and other barriers to trade, a situation which threatened the stability of the industry on both sides of the border. The advantages of producing with economies of scale were unavailable to Canadian producers and consumers.

The Agreement was the result of consultations over increasing trade frictions between the two governments and incorporates principles of integration and development for the automotive industries in both countries.

Today, the U.S. and Canadian automotive industries are highly integrated as most U.S. subsidiaries of major U.S. and foreign-owned motor vehicle and parts firms have integrated their U.S. and Canadian operations. Both consumers and manufacturers in the two countries have seen and will continue to see substantial benefits from the Agreement. In this exceptional situation, it would cause unnecessary costs and administrative burdens to arbitrarily discontinue duty-free importation and reimpose barriers at the border.

Purpose

At the time of the original waiver request, the two governments believed that, if barriers could be removed in a way which was mutually satisfactory, and at the same time not harmful to the trade interests of third countries, the industry could integrate its production operations on the most efficient basis, avoiding the necessity for maintaining uneconomic duplicative motor vehicle assembly facilities. By removing tariff barriers on imports of finished vehicles and original equipment (OE) parts, the Agreement sought to permit such integration.

The Agreement, providing for duty-free bilateral trade in certain specified motor vehicles (buses, passenger vehicles, and trucks) and original equipment parts, was designed to allow both the United States and Canada to develop a more rationalized and integrated North American automotive industry. Since implementation of the Agreement and over the life of the original waiver, these objectives clearly were achieved.

In order to import eligible Canadian automotive products free of duty into the United States, U.S. manufacturers must be certified to have the capacity to produce ten or more motor vehicles per forty hour week and to have produced no fewer than fifteen motor vehicles in the preceding year. Products must also meet the NAFTA rule of origin.

All motor vehicle manufacturers with assembly operations in the United States that meet the certification requirements of the Agreement and request certification have been granted certification. Manufacturers of OE parts may import duty-free into the United States on behalf of a certified motor vehicle manufacturer if they possess a contract or letter of intent from a certified motor vehicle manufacturer.

As part of the CFTA (carried over into the NAFTA), duties on all automotive products are to be eliminated over various staging periods. U.S. duties on passenger vehicles were eliminated as of January 1, 1989, and on certain after market parts as of January 1, 1993. Duties on all other automotive part have been steadily reduced since 1989 and will be eliminated as of January 1, 1998.

Effect on other members

The tariff preferences provided under the Agreement have not and will not create new barriers or otherwise impede the trade of members. In 1965, the United States was the largest single importer of vehicles in the world, and continues to be the largest single importer. During the life of the Agreement, automotive trade has increased exponentially, and U.S. imports from all sources have increased accordingly. Foreign-owned automotive firms invested in the United States and Canada have benefitted substantially from the ability the Agreement gives them to integrate their U.S. and Canadian operations.

The trade figures provided in Annex 1 demonstrate that the preference given to Canadian imports have not resulted in displacement of like products from third party sources.

Effect on MFN and GSP

The Agreement is a completely autonomous program which has never involved the binding of margins of preference. The Agreement has not impeded U.S. tariff negotiations: in 1965 the U.S. MFN duty on passenger vehicles was 6.5%, today it is 2.5%; in 1965, the U.S. duty on auto parts was 8.5%, in 1994 it was 3.1% and in 1999 it will be 2.5%.

The Agreement has no effect on GSP.

Conclusion

The United States therefore requests Members to give expeditious consideration to this request and to decide to extend the waiver of the provisions of paragraph 1 of Article I of the General Agreement for the period ending on 1 January 1998, to the extent necessary to permit the United States to grant duty-free treatment for imports of eligible automotive products originating in Canada. The United States is prepared to enter into consultations and to cooperate fully in providing additional information about the Agreement and discussing the specific terms of the waiver.

(Values in millions of dollars)

		U.S. Imports									
		Volume	Share	Volume	Share	Volume	Share	Volume	Share	Volume	Share
Source		1964		1992		1993		1994		1995	
<i>U.S. Imports of Motor Vehicles</i>		575	100.00%	57,088	100.00%	62,992	100.00%	72,596	100.00%	76,685	100.00%
<i>Canada</i>		22,543	39.50%	26,769	42.50%	30,959	42.60%	33,371	43.50%		
<i>U.S. Imports of Auto Parts</i>		95	100.00%	33,525	100.00%	38,306	100.00%	44,854	100.00%	46,355	100.00%
<i>Canada</i>		44	46.30%	8,996	26.80%	10,301	26.90%	11,279	25.10%	11,139	24.00%