

THE AUTOPACT SAFEGUARDS: HISTORICAL DETAILS

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The AutoPact of 1965 contained safeguards specifying minimum levels of automotive production in Canada. There was a sharp difference of opinion on the two sides of the border about the safeguards. In the United States, the view was held that the safeguards were intended to be temporary, providing protection for the Canadian industry during a transition period while major adjustments were being made. In Canada, a common view was: not so; the safeguards permitted lasting assurances that the industry would not pack up and move to the United States.

This note clarifies this issue. We also describe how the safeguards almost led to a nasty confrontation between the two countries.

In a discussion with Ron W. in 1996, Simon Reisman, the chief Canadian negotiator of the Pact, provided details. He said that he and Phil Trezise, the chief U.S. negotiator, had clearly understood that the safeguards were to be temporary. But a few years after the AutoPact came into effect, the question of phasing them out came before Canadian cabinet ministers. Their view was: the word “temporary” was not in the written Pact, so the safeguards could be kept. Simon believed that an important part of the understanding had been undercut.

This is consistent with comments that Phil Trezise made to Paul W. For Phil, there was no doubt that Canada had committed

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itself to eliminate or phase out the safeguards, and Canada had failed to do so.

The safeguards were a source of friction between the two nations. Resentment against Canada was particularly strong at the U.S. Treasury, which was alarmed by negative pressures on the U.S. trade balance during the late 1960s and the beginning of the 1970s.

The issue almost came to an unfortunate climax when the U.S. trade balance deteriorated rapidly in 1971 and the old Bretton Woods system unraveled. In August, in response to requests by foreign governments to exchange dollars for gold, senior officials of the Nixon administration met over a weekend at Camp David and hastily put together their New Economic Policy. Reporters were summoned to the Treasury to get the details.

Jules Katz, who was at that time with the State Department, went over to the Treasury to read the press release before it was made public. As reported in a conversation with Paul Wonnacott, he was shocked to see an announcement that the United States was withdrawing from the AutoPact. He quickly went to the office of Treasury Undersecretary Paul Volcker, and argued that the United States just couldn't do that to a friendly country, particularly without advanced warning. Volcker agreed.

By a fortunate fluke of history, the renunciation of the Auto Pact was on a separate page at the end of the press release. Katz rushed to the press room and ripped out the last page of the press release before it was made public.

A close call, and a very fortunate one. The New Economic Policy (NEP) already had a poison pill in it, as far as Canada was concerned. In order to encourage its trading partners to revalue their currencies, the United States had introduced an import duty

surcharge. But Canada already had a flexible exchange rate. In the haste of the moment, the international details of the NEP had not been thought through.

In short, the AutoPact negotiators agreed that the safeguards were temporary, and this understanding was undercut by the Canadian Government. This led some in Washington to conclude that Canada was not an altogether reliable negotiating partner, in much the same way that, later, softwood lumber disputes led some Canadians to take the same view of Washington as a negotiating partner.