Canadian auto industry and tariffs . . .

by Dave Dieks

In this edition of Old Autos, I've decided to take a different approach. Rather than spotlighting an individual vehicle, I want to explore the broader story of Canada's automotive industry and its impact on Canada.

The origin of a vehicle's manufacturing is often overlooked by customers when purchasing a new vehicle. Instead, consumers primarily focus on selecting a vehicle that meets their specific requirements, including affordability, fuel efficiency, and advanced features such as blind spot detection, parking assistance, and integrated infotainment systems.

The Canadian automotive industry has recently come under scrutiny from the U.S. government, with claims suggesting that Canada has displaced American manufacturing. However, is this assertion accurate? To conduct a proper evaluation, it is necessary to examine the origins of the automotive sector and its early development. Additionally, it is important to explore the fundamental reasons behind vehicle production in Canada.

The origins of the Canadian automobile industry can be traced back to Henry Seth Taylor, a skilled watchmaker and jeweller, who constructed the country's first horseless carriage in 1867 in Stanstead, Quebec. Taylor's steam-powered vehicle, regarded as a luxury novelty at the time, lacked brakes and ultimately met an unfortunate fate when it crashed into a creek. Despite its short-lived success, Taylor's creation set the stage for Canada's automotive future.

Other Canadian manufacturers soon emerged, including the Fossmobile, the LeRoy, the widely recognized Russell, the Tudhope, the Galt, and several others. However, despite numerous efforts to establish a successful automobile industry, no independent Canadian car company managed to endure. The country's limited population, financial constraints, and insufficient technological infrastructure ultimately hindered its ability to sustain a domestic automotive sector.

Canada's automobile industry gained momentum in the 1900s, as American manufacturers established factories within the country to sell vehicles while also avoiding costly import tariffs. Given that Canada is the second-largest country by landmass yet has historically had only about 10% of the U.S. population, the Canadian government took steps to safeguard its domestic automobile sector.

To protect the economy, Canada imposed tariffs of approximately 35% on automobiles imported from the United States, ensuring that locally manufactured vehicles had a competitive edge. Additionally, Canadian production provided a strategic advantage, granting access to Commonwealth markets, including Australia, New Zealand, India, and the United Kingdom.

The first of these was Ford of Canada, founded in 1904 in Walkerville, Ontario. Originally named Walkerville Wagon Works, the company was led by Gordon Morton McGregor, who successfully persuaded investors to support Henry Ford's growing automobile enterprise. After securing $125,000 in capital and committing 51% of the company's stock to Ford Motor Company, McGregor gained access to Ford's designs and patents. Production soon began, and in late September 1904, the first Canadian-built vehicle - the Model C - rolled off the factory floor. Ford of Canada assembled 117 automobiles in its first full year, marking the beginning of Canada's significant role in the automotive industry.

Canada's automotive industry gained a strong foothold in the global market early on, with Ford of Canada making its first overseas shipment to Calcutta, India. Trade advantages further strengthened Canada's position - vehicles exported from Canada to New Zealand faced only a 10% tariff, compared to 25% for those from the U.S. Similarly, an unassembled chassis shipped to Australia had a 7.5% tariff if it originated in Canada, but 12.5% if it came from the U.S. These tariff differences also applied to individual auto parts, making Canadian-manufactured vehicles and components more competitive internationally.

During the 1920s, Ford exported close to 50% of its output to other countries. Half the cars registered in Canada were Fords. General Motors followed a close second. Together they made 80% of Canada's motor vehicles. Canada would grow to become the second largest maker of automobiles at that time.

Ford of Canada played a crucial role in the country's automotive industry and later expanded its operations, including the establishment of an assembly plant in Montreal, Toronto, and Winnipeg. Some of these plants closed, but others were constructed in Oakville, Ontario, in 1953. To meet ever-increasing demand, the company opened an assembly plant in Talbotville, Ontario, in 1967 until it was shut down in 2011.

The Dodge Brothers' journey into the automotive industry began in 1892 when they established a bicycle company in Windsor, Ontario. This venture allowed them to refine their skills in manufacturing and mass production, which later proved invaluable when they transitioned into automotive parts production. Their craftsmanship quickly gained recognition, leading them to supply components for Oldsmobile's Curved Dash and Ford's Model T. Their growing expertise and reputation eventually propelled them into the automotive world, where they became one of the most legendary nameplates in history.

Another key player in Canada's automotive history is Chrysler Corporation of Canada, established in 1925 in Windsor, Ontario. This plant remains the longest-running automotive facility in Canada. Chrysler acquired the assets of Maxwell-Chalmers Motor Company of Canada, which had been operating in Windsor since 1916, allowing the company to expand its footprint in Canadian manufacturing.

The Windsor plant was originally dedicated to Chrysler car assembly, representing a significant milestone in Chrysler's Canadian presence. In 1928, the company further expanded its operations by establishing a new passenger car assembly facility in Walkerville (now part of Windsor), laying the groundwork for what would become the modern Windsor Assembly Plant. During this period, Dodge merged with Chrysler, solidifying its place within the growing automotive empire.

General Motors also came to Canada to avoid tariffs. They set up operations in Windsor, the Fisher Body factory, and the Kildare Road transmission plant, which closed in 2010. General Motors main presence was in Oshawa, Ontario. In 1907, the "McLaughlin Motor Car Company" was founded in Ontario by Samuel McLaughlin. The first year saw the sale of 154 McLaughlin cars.

McLaughlin and William C. Durant, Canada's and the United States' largest carriage builders, signed a 15-year con-

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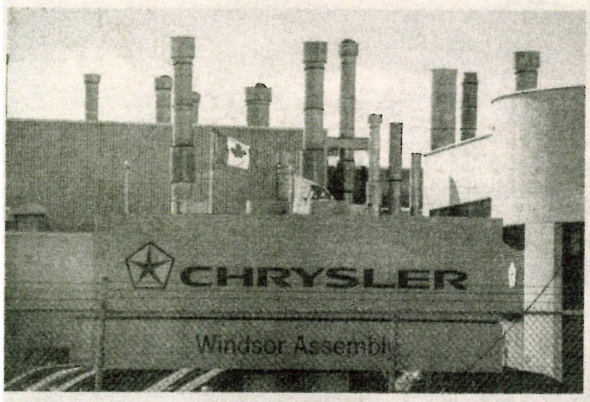

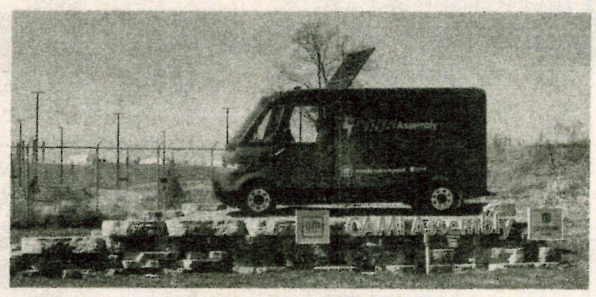

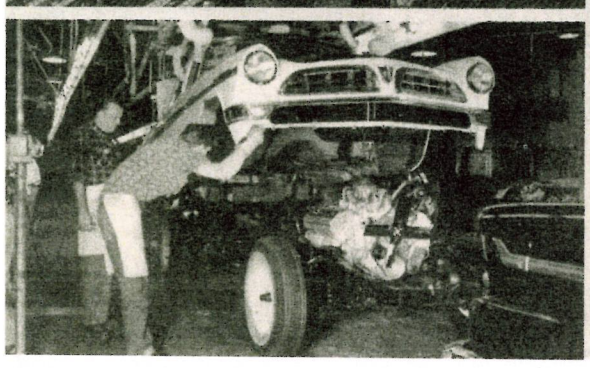

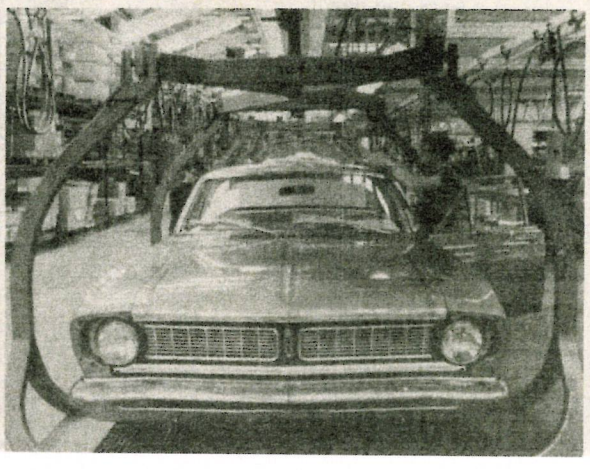

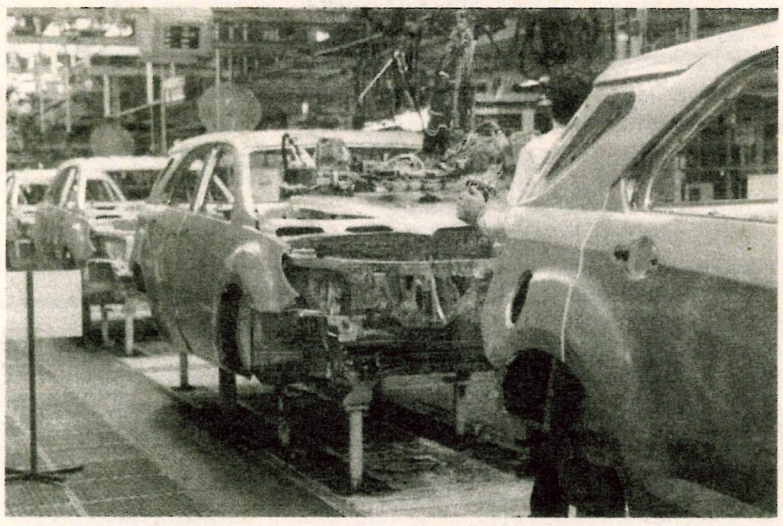

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tract with Durant's Buick to supply powertrains. McLaughlin installed the powertrains on running gear, bodies, and chassis manufactured by McLaughlin in Canada. From 1923 to 1942, the cars were branded McLaughlin until the end of the contract and then McLaughlin-Buick.

GM Canada has historically been one of the largest corporations in the country, with its headquarters in Oshawa, Ontario. Over the years, GM has operated several manufacturing plants across Canada, including facilities in Windsor, Ingersoll, and St. Catharines. The Oshawa Assembly Plant has been a cornerstone of GM's Canadian operations, producing a wide range of vehicles for both domestic and international markets.

Other factories that GM had, but have since closed, were the Scarborough Van plant that made vans from 1974 to 1993. St. Therese plant that made Chevy and Pontiac vehicles from 1965 to 2004 and two plants in Oshawa that are idle.

As we can see, the main reasons for these car factories are tariff avoidance, access to Commonwealth markets, and strategic location to the U.S. for supply chain and cross-border trade.

Now this relationship with the Big Three results in special cars only created for the Canadian market. For example, Ford had the Meteor, Monarch, Frontenac, Mercury trucks, Canadian Valiant, Chrysler Windsor, Fargo pickups, Acadian, Beaumont, and Canadian Pontiac models. These cars always confused our American neighbours because of the combined parts and styling that were unique only to Canada.

Things were brewing as the Canadian public wanted the tariff reduced because they viewed it not so much as something that protected a domestic industry, but as something that raised domestic prices. Manufacturers were worried that imports could damage the Canadian auto industry. This battle of tariffs continued into the 1960s.

As Canada's population grew, so did demand for vehicles. This also led other companies to build factories in Canada, like Hudson in Tilbury and Ramblers in Toronto, which turned into American Motors with a factory in Brampton that became part of Chrysler when they merged with them. Studebakers were made in Hamilton.

The global automotive industry underwent significant changes as Commonwealth nations began developing their own automobile sectors and imposing tariffs to protect domestic production. Initially, Canadian-made vehicles enjoyed favourable tariff conditions when exported to Commonwealth countries, giving them a competitive edge over U.S.-built models. However, as these countries established their own local manufacturers, they introduced tariffs to support their growing industries, making it less advantageous for Canadian automakers to export vehicles.

The result was a fundamental problem: Canada's auto industry was highly inefficient. The subsidiaries of U.S. companies, operating in Canada behind a high tariff wall, assembled a wide range of different models in Canada at production levels insufficient to achieve the economies of scale needed for commercial success. Productivity was about 50-65% of U.S. levels, and industry wages were about 70% of U.S. levels. Meanwhile, Canadian consumers paid much higher prices for vehicles and had less choice than their neighbours to the south.

Fearful of a declining auto industry and worried about the trade deficit, Prime Minister John Diefenbaker had in 1960 appointed Vincent Bladen, a University of Toronto economist, to study the industry. Free trade was rejected as a solution, fearing the Canadian industry would diminish.

With a new government in place, Prime Minister Lester Pearson engaged in extensive diplomatic negotiations with President Lyndon Johnson, leading to the establishment of the Auto Pact on January 16, 1965. This agreement introduced a free trade framework with protective measures designed to support the Canadian automotive industry. As a result, automakers were able to streamline operations by concentrating production on select models within Canadian plants. This shift allowed for increased output, greater employment opportunities, and expanded exports to the United States. Meanwhile, Canadian consumers gained access to a broader range of U.S.-manufactured vehicles without the burden of tariffs, enhancing their purchasing options.

During the 1980s, Japanese automakers expanded their presence in North America but remained excluded from the Auto Pact. To attract investment, Canada implemented duty-remission incentives, allowing manufacturers to import vehicles duty-free while maintaining export commitments to the U.S. and other international markets. This policy encouraged the establishment of key production facilities, including Honda's factory in Alliston, Ontario; the CAMI (Suzuki-GM) plant in Ingersoll, Ontario, in 1988; and Toyota's manufacturing operations in Cambridge, Ontario. These developments further solidified Canada's role in global automotive production.

Canada offers a strategic advantage for automotive manufacturing, making it a prime destination for Japanese automakers. The country's strong quality control standards, reliable material sourcing, and highly skilled workforce contribute to the production of durable, high-performance vehicles. Additionally, advanced production technology and automation ensure efficiency and precision, allowing manufacturers to maintain competitiveness in the global market.

In 1989, significant policy changes led to the formation of the North American Free Trade Agreement (NAFTA). This new agreement introduced the phased elimination of tariffs on cross-border trade for new vehicles and parts produced by non-Auto Pact manufacturers. As a result, Asian and European automakers with production facilities in North America gained the same free trade advantages as the original Auto Pact participants, provided their vehicles met the agreement's 50% North American content requirement. This shift further integrated global manufacturers into the North American automotive market, promoting competition and economic growth.

Canada didn't steal the U.S. auto industry; rather, it developed its own manufacturing sector through strategic policies and trade agreements. While Canada plays a crucial role i North American automotiv production, Mexico has surge ahead with a larger number vehicle models, producing 4 compared to Canada's 10. I terms of global rankings,

Canada holds the 11th pos tion in vehicle production, whil Mexico is ranked 7th and th U.S. remains a powerhouse a number two, trailing only Chin

Canada's automotive succes stems from factors like duty-re mission incentives, skille labour, and strong trade agree ments such as the Auto Pact an NAFTA, which have encourage automakers to invest in Can dian factories rather than shif ing production away from th U.S. It's a story of cooperatio not competition.