

in every year of the agreement and the parts deficit has been steadily increasing since 1970 to reach a record level of \$4.2 billion in 1979, with a slight improvement indicated in 1980. The Canadian deficit in auto parts trade has been offset, to some extent, by a traditional trade surplus in motor vehicles. However, the overall Canadian trade balance under the Auto Pact has worsened considerably since the early 1970's when Canada was in a surplus position. A further area of concern with respect to Canadian automotive activity relates to what has been termed the "truncated" nature of the Canadian industry-- that is, the tendency for Canadian subsidiary firms to rely on their U.S. parent companies for research and development, engineering and design, management functions and investment and sourcing decisions.

In addition to those concerns arising out of past performance, the revolutionary changes taking place in the automotive industry and the uncertainties as to the future shape of the automotive world inject a new element into the Auto Pact situation. The sudden and dramatic consumer shift to smaller, more fuel-efficient vehicles has resulted in a major increase of vehicle imports into North America and has signalled the advent of the "world car" era. These developments, combined with the impact of an economic recession, have had serious effects on employment and production in the Canadian automotive industry.

Conversion of existing model lines to produce the new generation of vehicles requires capital expenditures of an order of magnitude unprecedented in the history of the industry and at a time when manufacturers are facing severe cash flow problems as a result of slack consumer demand. The impact is also being felt by parts and material suppliers and product obsolescence has taken a heavy toll on Canadian parts producers, resulting in closure of certain facilities. As the manufacturers undertake restructuring, production shifts, and introduction of new technologies required to adjust to the new "world car" scenario, there is also the question of the influence on decision-making, of increasing use of investment incentives and other levers in jurisdictions around the world including the United States.

Against this background, Canada-U.S. consultations were initiated, at the request of the Canadian Government, under the provisions of Article IV of the Canada-U.S. Auto Agreement at a meeting in Ottawa between Hon. Herb Gray and U.S. Trade Representative Governor Reubin Askew on April 21, 1980. The first consultative meeting was held in Washington