

(PAC) in 1984, for the purpose of stimulating both the Canadian and Japanese parts industries. Staffed by Japanese auto executives and directed by officials of the Japanese Automobile Manufacturers Association (JAMA) and the Japan Auto Parts Industries Association (JAPIA), PAC is waging an ambitious campaign to entice Japanese suppliers to take some of the sting out of U.S. political frustration with the mounting parts trade deficit, by entering the U.S. through the back door. Perhaps this fits the letter of the Auto Pact, but it clearly does not conform with the spirit. Moreover, it seriously undermines our market opening initiatives.

But, Japan is reacting to political pressure from both countries. Its chief response is to move more of its vehicle production to North America. Reluctant to choose from U.S. suppliers who are capable of supplying the entire gamut of Japanese auto manufacturing needs, Japanese car makers prefer to establish their own supplier families nearby. Faced with U.S. industry resistance to a network of new plants setting up next door to underutilized American plants, Japanese firms are finding PAC's sales pitch most appealing. Not only will Canada welcome their suppliers, but the Japanese can locate close enough to the U.S. assembly plants for just-in-time delivery. All is done duty free and in full compliance with the Auto Pact.

Obviously, Canada offers advantages beyond a receptive climate. The strong U.S. dollar, that has hampered our firms' access to foreign markets, becomes a potent club against us as our chief trading partner offers a built in 25 percent plus discount on every component and car shipped to the U.S.

Add to this the lure of government grants and lower operating costs in the key areas of wages, utilities, and materials, and it is easy to see that our parts trade deficit with Canada could mount swiftly as Japanese suppliers exploit the Auto Pact to sidestep U.S. political pressures.

To reiterate, it is imperative that we not aid this onslaught by making our aftermarket industry more vulnerable. Even with the status quo, we know that Japanese suppliers to American OE markets will enter our aftermarket with the same competitive advantages cited above. Moreover, their OE production base will help lower the cost of the extra units produced for the U.S. aftermarket, making their price competitiveness even more formidable.