

is a mature industry, and, as well, is highly sensitive to the business cycle. Significant fluctuations in demand will keep it on a rollercoaster ride with respect to profitability. The extent to which the major manufacturers will be able to ride out the next recession without undue damage to balance sheets will depend on whether efforts of the last few years will enable them to continue to reduce costs, pare overheads, and raise in dividends and bonuses while investing heavily in new plant and equipment.

In the medium and heavy duty truck sub-sector, the same degree of rationalization has not taken place as for car assembly. Plants are generally smaller-scale, vertical integration is low and most of the components of Canadian built trucks are imported from the United States. The downturn in the economy and deregulation in the United States in the early 1980's severely depressed demand for heavy duty trucks. Excess capacity still exists in Canada. There is considerable apprehension that some United States based companies will consolidate their operations and close Canadian plants.

In the car assembly sub-sector, North American demand moved rapidly from the typical North American large car to imported sub-compacts following the oil price shocks in the 1970's. The offshore vehicles, in addition to meeting the fuel efficiency needs of consumers, were of better quality and lower cost than comparable North American produced vehicles. North American assembled vehicles still have a cost disadvantage vis-à-vis Japan of \$1500 - 2500 per vehicle leaving the industry exposed to severe erosion should an open market environment prevail. In addition, other low-cost competitors are entering the North American market (Korea, Mexico, Taiwan), thereby further increasing import pressures.

Canadian production facilities compare favourably with American plants with respect to production cost and technology. The current Canadian hourly wage advantage is about \$3 (U.S.). With respect to technology, the industry is aware of its shortcomings and is striving to improve the situation, but all decisions with respect to Canadian plants are made in the U.S.

3. Federal and Provincial Programs and Policies

The centrepiece of Canadian automotive policy is the 1965 Canada-U.S. Automotive Products Trade Agreement (Auto Pact) which permits qualified Canadian vehicle manufacturers to import free of duty original equipment parts and vehicles from the U.S. and other countries. Tariffs for vehicles which do not fall under the Auto Pact are 11.4 percent and will decline to 9.2 percent by 1987 under the General Agreement on Tariffs and Trade. Vehicles from developing countries (e.g. Korea) currently enter Canada duty-free under the General Preferential Tariff.

A more recent feature of Canadian automotive policy is the temporary system of Voluntary Export Restraints (VERs) on Japanese vehicles. The