Ford and Chrysler to shelve diesel engine facilities in Canada are at least partially due to the fact that Japanese sources of supply are more attractive.

4. As the North American industry attempts to catch up with Japan's productivity, a drastically smaller auto labor force will result. Adoption of the "just-in-time" system of inventory control alone is estimated by Arthur Andersen and Company to reduce auto supplier employment by 20 percent through to 1985. Sole sourcing may also eliminate a number of Canadian parts subsidiaries which are often second sources of supply for the industry. Ross Perry estimates in a recent monograph entitled *The Future of Canada's Automotive Industry* that if the Canadian industry were to be as productive as the Japanese some 70,000 of the 110,000 jobs in the industry would be redundant.

So the medium term outlook for the Canadian industry is not rosy. The extent to which the natural forces of decline can be abated depends on the marginal decisions of the companies involved, as influenced by government policy. The strategic plans of the Big Three are, however, not well known in Canada because the Canadian subsidiaries with whom the Canadian government deals generally have no voice in, and therefore little knowledge of, decision-making at corporate headquarters.

Canadian policy environment

Automotive policy formulation in Canada is heavily complicated by the often competing interests of the vehicle manufacturers, parts producers, organized labor, consumers, geographic regions, and not insignificantly, other government trade and industrial policy thrusts. With the advent of the Autopact in 1965 most, if not all, of these interests could be accommodated, since the Autopact solution fostered growth and lowered consumer prices within a liberalized trade environment.

The current policy environment is much different, but there appears to be scope for consensus, at least on the part of the industry itself, around increased protection rather than liberalization. Consumers (but not the exporting community) may well be neutralized in this debate because auto prices are actually declining in real terms as costs are reduced and competition heats up for market share. For example, auto prices have actually declined in the last year despite restraints on exports from Japan to Canada.

If protection will not necessarily lead in the short term to higher prices, it provides a seemingly low-cost solution to Canada's plight. Protection in itself does little, however, to mitigate the adverse trends for Canada in the auto sector over the medium to longer term. Unless protectionism is married to other more positive initiatives designed to influence structural change, it merely buys time.

Alternatives to protectionism are much more difficult to analyze and subsequently to negotiate. In their broadest conceptual sense they involve either an improved partnership with the US industry, or increased ties with Japanese manufacturers. With respect to the first alternative, an improved Canada-US relationship might involve some rejigging of the Autopact, bilateral coordination of policies that affect the auto sector, and a common approach to Japan. Underlying this alternative is the assumption that the US-owned industry can regain its competitiveness and that Canada can make a significant contribution to the recovery.

On the other hand, if the view is that the US-owned industry is in perpetual decline, at least as far as its North American production base is concerned, and that Japan will maintain its competitive preeminence, Canada may choose to seek closer ties with Japanese automakers. Having stated the objective, however, it is difficult to conceive how it can be met. A successful negotiation requires both parties to see some incremental benefit. The economics of automotive investment in North America by Japan are generally not favorable. Given that, the North American auto industry is leaning more towards the stick than the carrot. Certainly the threat of protectionist legislation in Congress has induced Japanese automakers to make investments in the US. Whether Canada can exact similar responses is a debatable point.

When all is said and done, the essential question for Canada is, what leverage do we have over the foreign-owned automakers to increase production and employment in this country? (Free market forces are irrelevant in the auto sector context, since government intervention is the rule internationally, even in the bastion of free enterprise, the United States.) The lever upon which all options are based is access to the Canadian market, which, when healthy, is one of the largest in the world. Under normal market conditions Canadians purchase about one-and-a-quarter milion vehicles annually at a value in excess of ten billion dollars. This fact is clearly not lost on the federal government or the auto companies. □