

previously reported landed cost advantage in the North American market. Although detailed supporting data is not readily available, the Japanese manufacturing cost advantage, lower worker compensation rates, lower capital and material costs, and higher productivity continue to be moving targets. In recent years movements in the dollar/yen exchange rates have aggravated the competitiveness by partially neutralizing the favourable impact of recent efficiency improvements by the North American industry. Based on studies of the U.S. and Japanese automobile industries, the United States Department of Commerce estimates that U.S. firms require at least twenty per cent more hours to produce a small automobile than Japanese companies. Even with a stronger yen, the competitive strength of Japanese producers suggests only a gradual reduction in their manufacturing cost advantage is likely to occur in the next five years. While a higher yen can increase their sticker price it also makes imported raw materials cheaper.

The termination of the "voluntary" restraint arrangement between the United States and Japan on March 31, 1985 raises the question of how the North American industry is likely to fare during the next few years. Although the Japanese have agreed to contain imports to 2.3 million units in the following twelve months the prospects for the North American industry will depend on the growth in sales of Japanese automobiles and the future level of total North American demand for automobiles. Canada and Japan have recently agreed that Japanese shipments of automobiles to Canada in the twelve month period from March 31, 1985 will not exceed 18 per cent of market demand. Japan