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CANADA'S EXPORT STRATEGY

The International Trade Business Plan

1995/96

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*An Integrated Plan for Trade, Investment
and Technology Development*

The International Trade Business Plan is made up of an **Overview** highlighting Canada's international business development priorities, and a series of **Industry Sector Strategies**, which include lists of planned international activities. The following documents are available:

- Overview
1. Advanced Manufacturing Technologies
 2. Agriculture and Food Products
 3. Aircraft and Parts
 4. Automotive
 5. Biotechnologies
 6. Business, Professional and Educational Services
 7. Chemicals, Plastics and Advanced Materials
 8. Construction Products
 9. Consumer Products
 - Apparel and Fur
 - Textiles
 - Footwear
 - Sporting Goods (including recreational watercraft)
 - Tools, Hardware and Housewares
 - Residential Furniture
 - Business and Institutional Furniture
 10. Cultural Industries
 11. Defence Products
 12. Environmental Equipment and Services
 13. Fish and Sea Products
 14. Forest Industries
 15. Information Technologies and Telecommunications
 - Sector Overview
 - Computers and Peripheral Equipment
 - Electronic Components
 - Geomatics
 - Instrumentation
 - Software Products and Computer Services
 - Telecommunications
 16. Medical and Health-Care Products and Services
 - Medical Devices
 - Pharmaceuticals
 - Health-Care Services
 17. Minerals and Metals
 18. Oil and Gas Products and Energy Equipment
 19. Power Equipment
 20. Primary/Secondary Industrial Machinery
 - Mining, Forestry, Pulp and Paper
 - Agricultural Technology, Machinery and Equipment
 - Ocean and Marine Shipboard Technology
 21. Rail and Bus Equipment
 22. Space
 23. Tourism

For information on how to receive the Overview, or additional Industry Sector Strategies, please call: **1-800-267-8376**

All monetary figures in this document are expressed in Canadian dollars unless otherwise indicated.

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Aussi disponible en français sous le titre Automobile.



Automotive

The automotive sector consists of car, truck and trailer assembly, manufacturers of tires, components, aftermarket/accessories, service equipment, and dealerships and garages.

International Environment

The automotive industry serves a market of 48 million vehicles, produced by 28 assemblers worldwide. Japan and Southeast Asia produce approximately 17 million, Western Europe 15 million, and North America 12 million vehicles annually.

Supporting their activity is a supply base of 2500 tier-one parts manufacturers, 30 000 tier-two companies and over 200 000 tier-three companies. Tier-one suppliers provide full service, including research and development (R&D) and design-in engineering capabilities. Tier-two suppliers largely market their products and capabilities to tier-one companies, while tier-three firms are mainly suppliers of materials and services. Worldwide, there are over 50 000 automobile dealers and 500 000 repair shops.

During the economic slowdown in industrialized countries in the early 1990s, a few parts companies in Canada closed, but most restruc-

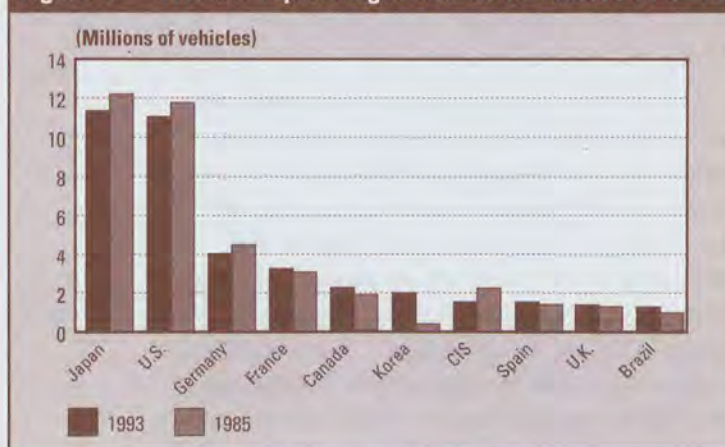
tured and have emerged stronger than ever. Auto makers also restructured on a global basis. Although the sector has made massive strides toward improving its competitiveness, there are those who believe that the global automotive restructuring is not yet over. Also, the industry is cyclical, and other downturns can be expected. As a consequence, global competition is likely to intensify for both parts companies and assemblers.

The shift in global market share from North America to Japan and Southeast Asia, which has occurred over the last 10 years, led to trade tensions especially among the United States, Europe and Japan. These are being addressed in a variety of ways.

International trade agreements are changing the comparative advantages of countries as tariffs are being driven down with each successive General Agreement on Tariffs and Trade (GATT) round and as regional free trade agreements are negotiated. It is expected that trade barriers will continue to be reduced, thus opening new markets and opportunities for Canadian firms, particularly in China, Eastern Europe and Latin America, and creating new pressures on multinational firms to consolidate operations.

The automotive industry is adjusting to the many challenges of globalization, shifts in production centres, changing tariff regimes, technological change, environmental and other regulations, and consolidation of supplier firms. As a result, manufacturers are under pressure to restructure, to reduce costs, and to increase competitiveness. North American assemblers have been focussing on their core business, resulting in the tier structure (noted above) in the parts industry, while multinational enterprises (MNEs) are forming strategic alliances to remain competitive. These developments are

Figure 1 — World's Top 10 Light Vehicle Producers in 1993



Source: Ward's, Automotive News

giving rise to a much more customer-focussed industry, with quality, cost, delivery and customer service as the primary criteria for success.

The United States remains the most important market for the Canadian automotive industry, accounting for over 80 percent (\$36.6 billion in 1993) of total shipments of vehicles and parts. As a result of the Auto Pact (1965), the U.S. and Canadian automotive sectors are integrated. The Canada-U.S. Free Trade Agreement (FTA) and the North American Free Trade Agreement (NAFTA) remove barriers to trade among Canada, the United States and Mexico, further encouraging integration. Many Canadian companies tend to view the United States as part of their "domestic" market, as attention is being given to the new opportunities being created by the recent establishment of European and Japanese assemblers in the United States. The U.S.-Japan trade dispute continues to have the potential to distort sourcing, trade and investment decisions in North America.

In Japan, the last three years have been ones of retrenchment as the domestic market and corporate profit levels declined. Japan has not been immune to restructuring as companies seek lower costs and new markets. Japanese assemblers have been a powerful stimulus to the international restructuring process, establishing an important vehicle production base in North America (16 percent of total capacity), and a significant parts manufacturing base, mainly in the United States. In 1993, Japanese companies accounted for over 21 percent of the total light vehicle market in North America, which is down slightly from the year before. The Canadian automotive industry must develop a stronger relationship with the Japanese-owned automotive industry in order to obtain high levels of investment and sourcing in Canada. This requires maintaining a competitive business climate and aggressive promotion of Canadian capabilities.

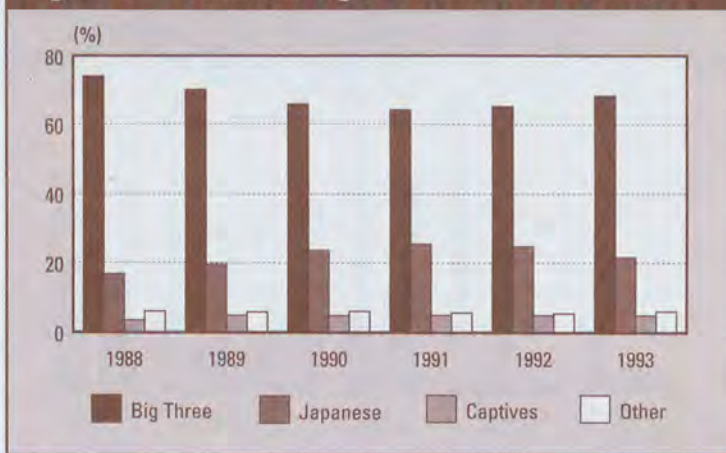
In Europe, the automotive market is undergoing global restructuring similar to that experienced in North America several years earlier, and although sluggish, European vehicle sales are showing signs of recovery. Japanese vehicle imports to Europe

are restricted until 1999. Europe overall has good potential for high-quality supply and new investments; however, Canadians will have to develop alliances and promote parts capabilities. German assemblers in particular are increasing their purchases of Canadian parts for worldwide operations.

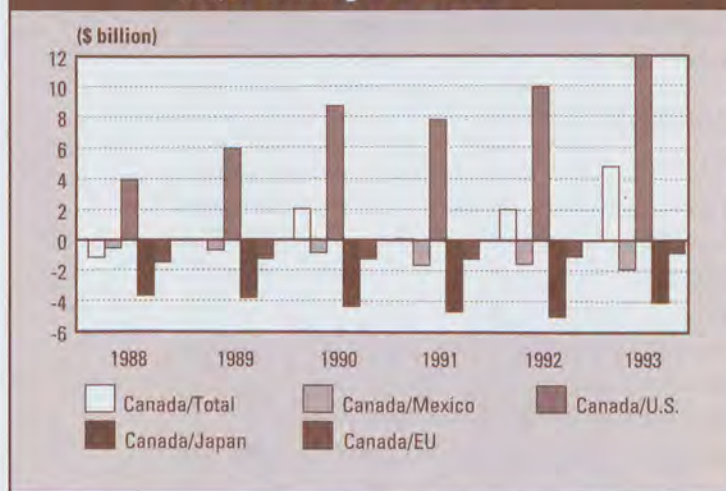
Mexico has emerged as a key centre of attention, particularly in light of improved access to the market resulting from the NAFTA. The Mexican market is expected to increase its capacity by over 50 percent to about two million units per year, with parts sales expected to grow to \$20 billion. The integration of the North American market after the phasing out of the highly protectionist Mexican Auto Decree will provide significant trade, sourcing and investment opportunities for both assemblers and parts companies. Many companies are now examining the potential and developing strategies to meet the competition.

The Pacific Rim, and China in particular, is seen as having the greatest potential for growth and is attracting new attention. A threefold increase in total annual production (three million vehicles) is forecast. The Big Three have established plans to set up plants in China, and expect many of their current parts suppliers to co-operate. China, on the other hand, expects suppliers to consider a partner located in that country, with pressure to investigate transferring supply capabilities to China. Analysis is required on the full scope of automotive market opportunities in China and the Pacific Rim.

In South America, Brazil and Argentina have substantial automotive industries, with major vehicle and parts investments from Europe, Japan and the United States. Brazil, the larger of the two, was the tenth-largest vehicle producer in the world in 1993, outranking Mexico. South America's automotive industries are protected under complex policies designed to increase local content and promote exports. The importance of these industries and the potential for freer trade with this area suggests that Canada should undertake a preliminary policy and market assessment.

Figure 2 — Canadian Light Vehicle Market Shares

Source: MVMA, Ward's, AIAMC, Japanese share excludes captives

Figure 3 — Canada's Automotive Trade Balance with Major Trading Partners

Source: Statistics Canada, Industry Canada. Does not include auto-related materials

Canadian Position

The Canadian automotive industry is well positioned to pursue opportunities both in North America and elsewhere. It is Canada's largest manufacturing sector (7 percent of gross domestic product [GDP] for Goods Producing Industries), employing 137 000 in manufacturing and 339 000 in retailing and services. The total value of 1993 automotive shipments was \$56.7 billion (parts: \$16.3 billion; vehicles: \$38.9 billion; tires/tubes:

\$1.5 billion), up over 22 percent from 1992. With 15 assembly plants, Canada was the fifth-largest automotive producer in the world in 1993.

In 1993, Canada produced 2.2 million vehicles, up 14 percent over 1992, which represented almost 17 percent of total North American production. Over 80 percent of this was exported to the United States. Light vehicle sales in 1993 totalled 1.19 million units, down over 2 percent from 1992. Asian market share overall was approximately 21 percent (see Figure 2). Parts production in Canada represented about 12 percent of total North American automotive parts manufacturing. Over 90 percent of these sales were to the Big Three assemblers, with the remainder shared by Asian and European assemblers. Canada had an overall automotive trade surplus in 1993 of \$5 billion, up from \$2 billion in 1992 (see Figure 3).

The Canadian vehicle assembly base is 100 percent foreign-owned and is competitive. The Big Three have almost 85 percent of the assembly capacity, with new entrants having the balance. The Big Three and Asian assemblers have invested in state-of-the-art facilities in Canada, and have strong product mandates. All plants are either new, or have been modernized. Canadian assembly plants are known for their high quality. In 1993 quality ratings, three of the top four plants in North America were located in Canada. New entrants had approximately 8.5 percent of total assembly employment. Given that a number of Canada's trading partners are encouraging firms to increase local sourcing and investment, it is incumbent on Canada to clearly state its case as a source of competitive supply and an attractive location for investment. Increased productivity and dedication to continuous improvement are key to the future growth of the industry.

Supporting vehicle assembly in Canada is a strong parts manufacturing base, especially at the tier-two and tier-three levels, as well as an extensive tool and die sector. Canada has limited capability at the tier-one level. The parts sector

has doubled in size over the past 10 years, largely due to continued investment (\$1 billion annually over six years), so that it has become world class in quality, cost and delivery. Parts manufacturing output in 1993 was \$213 000 per employee, up 13 percent from 1992, and up 39 percent from 1989. Some Canadian parts companies have leading-edge process and production technology.

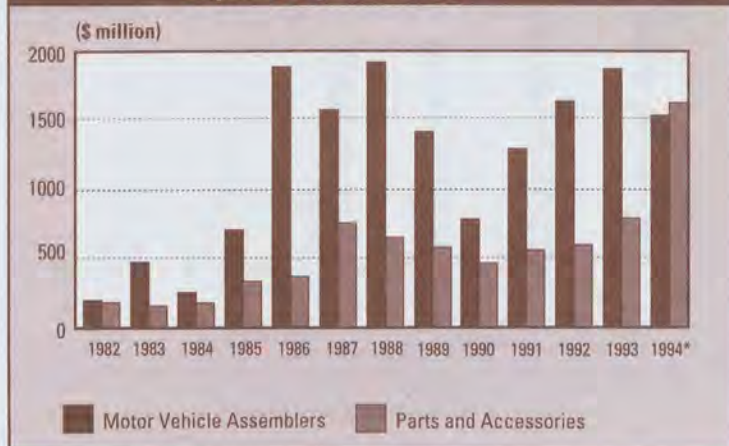
During the first wave of Japanese assembler investments to North America, Canada attracted three new plants involving close to \$1.5 billion in investment. Following the assemblers were Japanese parts investments, although most of these, particularly tier-one firms, established in the United States where the Japanese continue to invest heavily.

The Big Three have recently made significant capital investments in assembly and components in Canada. Investments by new entrant assemblers were important as well, albeit on a relatively smaller scale. In addition, capital expenditures by parts sector companies for expansion, tooling and new plants were at an historic high in 1993 (see Figure 4).

R&D tax credits in Canada are the most generous of Organization for Economic Co-operation and Development (OECD) countries, with the United States ranking fifth, and Germany eighth. However, this fact is not widely known. Canada's R&D tax policy should encourage additional investments in key technologies and strategic alliances.

The Canadian automotive industry has a good record of consistent improvement in quality and productivity and high education standards. It is globally competitive, with a firm commitment to training. Strong growth is expected in this industry, particularly with the current low inflation and interest rates. Automotive investors continue to have confidence in Canada. These factors should offer new opportunities for increased Canadian sourcing and exports to Japan and Europe, and investments in Canada.

Figure 4 — Canadian Automotive Industry Capital Expenditures



Source: Statistics Canada. *Estimated

While Canada has been very successful in automotive trade with the U.S. (80 percent of output), it must seek to do the same with other countries.

The Challenge

The Canadian vehicle and parts sectors are competitive. To take full advantage of new opportunities, Canadian manufacturers will have to move quickly as international competitors also seek to diversify by participating in growing markets. To develop markets further, customers around the world must receive a positive message from Canada that clearly conveys Canada's competitiveness. The profile of Canadian capabilities must be enhanced in the priority markets of the United States, Japan, Mexico and Europe, and in emerging markets of the Pacific Rim, notably China.

The challenge for governments is to create and maintain an industrial and trade policy environment that fosters the development of the motor vehicle and parts industry; maintains the momentum of attracting long-term manufacturing and technology investment; improves sourcing opportunities; and increases trade.

The challenge for industry is to continually improve competitiveness and to increase its ability to acquire new capabilities in products and processes.

Strategic Direction

The overall action plan for the sector is focussed on the following strategic elements:

Sourcing/Trade Development

- increase exports of vehicles, original equipment manufacturer (OEM) parts, aftermarket parts, service equipment, and specialty vehicles from Canada, through fairs, missions, visits, seminars and other activities (Department of Foreign Affairs and International Trade [DFAIT]/missions, Industry Canada [IC], provinces, Automotive Parts Manufacturers' Association [APMA], Automotive Industries Association [AIA], Pacific Automotive Co-operation [PAC]);
- ensure that the Canadian automotive sector receives full access to all sourcing/procurement, investment, trade, and design-in activities, by balancing international trade pressures through consultations (DFAIT/missions, IC);
- maximize sourcing opportunities in Canada and the United States by promoting original equipment (OE) and aftermarket (AM) manufacturers' products with potential clients (DFAIT/missions, IC, provinces, APMA, AIA, PAC);
- raise profile of the Canadian auto parts sector in Mexico, Japan, Europe and the Pacific Rim through promotion, by encouraging strong industry lead in international activities such as fairs, missions, seminars (DFAIT/missions, IC, provinces, APMA, AIA, PAC).

Investment/Technology Acquisition

- encourage Canadian-based plants to continue to modernize, maintain key product mandates, and expand to world-scale as markets dictate; maintain a good business climate by ensuring policies and programs are responsive; and ensure that the advantages of doing business in Canada are well understood through design and use of promotional documentation (IC, companies);
- attract complementary high value-added parts manufacturing investments by promoting joint ventures, licensing and alliances between foreign and Canadian parts producers, and direct investments. This promotion would be targeted to subsectors where Canada lacks strength, through analysis and targeted promotion with industry (IC, DFAIT/missions, APMA, AIA, PAC).

Research and Development

- encourage R&D in Canada through promotion of R&D tax benefits, and through bilateral technology development programs (IC, DFAIT/missions, APMA).

Contact

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Fax: (613) 952-8008

Automotive

Activity	Date	Location	Dept.	Contact
Asia-Pacific South				
Auto Shanghai '95: Ontario Exhibit	Jun-95	Shanghai	Ontario	416-325-6782
Canada				
Foreign Buyers' Program from Western Europe, Latin America, Middle East	Ongoing	Canada	IC	613-954-3706
Marketing Opportunities Seminars	TBD	Canada	IC	613-954-3706
East Asia				
Auto Parts/Accessories Show: National Stand	Nov-95	Seoul	DFAIT	613-995-8744
Japan				
PAC Seminar Programs (OEM)	Ongoing	Toronto	PAC	416-222-0700
Pacific Auto Co-Operation: Visit to Canada	Apr-95	Canada	IC	613-954-3445
Japanese Buyers to AAMA Conference	Apr-95	Toronto	IC	613-954-3445
Surface Transport Equipment Mission from Japan	May-95	Quebec	Quebec	514-499-2190
Tokyo Motor Show: National Stand	Oct-95	Japan	IC	613-954-3445
OEM Auto Parts Mission: Tokyo Motor Show	Oct-95	Japan	IC	613-954-3445
PAC/APMA Automotive Conference	05-Oct-95	Toronto	IC	613-954-3445
Latin America and the Caribbean				
Expopartes	May-95	Bogota	DFAIT	613-996-5548
Automotive Partnering Workshop	May-95	Mexico	APMA	416-620-4220
PAACE '95 Mini-Mission	Jul-95	Mexico	IC	613-954-3436
PAACE '95 (OEM/Aftermarket): National Stand	Jul-95	Mexico City	IC	613-954-3436
ExpoMotors '95 (Aftermarket Parts): Info Booth	Oct-95	Buenos Aires	DFAIT	613-996-5549
United States				
SEMA/AI: National Stand	Nov-95	Los Angeles	DFAIT	613-944-5149
APMA Workshop	Jan-96	Detroit	DFAIT	613-944-5149
Society of Auto Engineers	Feb-96	Detroit	DFAIT	613-944-5149
Mid-America Trucking Show: National Stand	Mar-96	Cincinnati	DFAIT	613-944-5149

Note: Dates and locations are subject to change.

Activity	Date	Location	Dept.	Contact
Western Europe and European Union				
Euro-Quebec Hydro-Hydrogen Pilot Project	Ongoing	Montréal	Quebec	514-499-2173
Canadian International Auto Show: Incoming Buyers	17-Feb-95	Toronto	DFAIT	613-992-7001
Euro Assemblers: Sourcing Mission	Apr-95	Ontario, Quebec	IC	613-954-3725
Auto Media Mission to Canada from Europe	Jun-95	Ontario, Quebec	IC	613-954-3725
Parts Mission from Canada	Sep-95	Germany, Austria, Sweden	IC	613-954-3725
Equipment Auto: Info Booth	13-Oct-95	Paris	DFAIT	613-992-7001
Automechanika (OEM) Buyers' Follow-up Mission	Nov-95	Toronto	Ontario	416-325-6654
Ontario Investment Seminar (Germany)	Feb-96	Frankfurt	Ontario	416-325-6654
Ontario Investment Seminar (U.K.)	Feb-96	London	Ontario	416-325-6654
Automechanika '96: National Stand	Sep-96	Frankfurt	IC	613-954-3725

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Acronyms and Initialisms Used in The International Trade Business Plan

(This list does not include sector-specific references)

ACOA	Atlantic Canada Opportunities Agency	IC	Industry Canada
AG Can	Agriculture and Agri-Food Canada	IDRC	International Development Research Centre
ASEAN	Association of Southeast Asian Nations	IFI	international financial institution
BBS	electronic bulletin board system	ISO	International Standards Organization
BOSS	Business Opportunities Sourcing System	ITBP	International Trade Business Plan
CCC	Canadian Commercial Corporation	ITC	International Trade Centre
CIDA	Canadian International Development Agency	MAPAQ	Ministry of Agriculture, Fisheries and Food of Quebec
CIS	Commonwealth of Independent States	MDB	multilateral development bank
CSA	Canadian Standards Association	NAFTA	North American Free Trade Agreement
DFAIT	Department of Foreign Affairs and International Trade	NATO	North Atlantic Treaty Organization
DFO	Department of Fisheries and Oceans	NRC	National Research Council
DND	Department of National Defence	NRCan	Natural Resources Canada
EC	Environment Canada	NRCan-CFS	Natural Resources Canada - Canadian Forest Service
EDC	Export Development Corporation	OECD	Organization for Economic Co-operation and Development
EU	European Union	PEMD	Program for Export Marketing Development
FITT	Forum for International Trade Training	R&D	research and development
FORDQ	Federal Office of Regional Development - Quebec	SMEs	small- and medium-sized enterprises
FSU	former Soviet Union	UNEP	United Nations Environmental Program
FTA	Canada-U.S. Free Trade Agreement	WED	Western Economic Diversification
GATT	General Agreement on Tariffs and Trade	WTO	World Trade Organization
GDP	gross domestic product		
GNP	gross national product		
HRDC	Human Resources Development Canada		



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